AUDITOR GENERAL
Alberta

Report of the Auditor General of Alberta

MAY 2017

AUDITOR GENERAL
Alberta

Mr. David Shepherd, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—May 2017* to Members of the Legislative Assembly of Alberta, as required by Section 20(1) of the *Auditor General Act*.

We conducted our audits in accordance with the *Auditor General Act* and the standards for assurance engagements as set out in the CPA Canada Handbook—Assurance.

[Original Signed by Merwan N. Saher FCPA, FCA]
Auditor General

Edmonton, Alberta
April 26, 2017

AUDITOR GENERAL
Alberta

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AUDITOR GENERAL
Alberta

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REPORT OF THE AUDITOR GENERAL OF ALBERTA

May 2017

Auditor General's Message

Our vision is to make a difference in the lives of Albertans. We do this by identifying opportunities to improve the performance of, and confidence in, Alberta's public service.

Our Performance Audit Program of Work

The new and follow-up audits included in this report were planned before the office developed and introduced a new process designed to create a multi-year program of performance audit work.

We made the new process, and the resulting list of intended performance audits for the next three years, public on April 20, 2017.

Executive Summaries

A further development in our processes is to prepare and publish, in a consistent form, executive summaries of our audit results. The summaries of the audits included in this report can be found starting on page 7.

Findings and Recommendations

Readers of this report will observe that the audit topics reported on are wide-ranging. The recommendations for improvement for this particular suite of topics do not clearly indicate a common root cause of the need for improvement.

Albertans can be pleased that our follow-up audit on Alberta Social Housing Corporation's contracting policy found that the department has implemented our recommendation by putting in place a new contracting policy along with supporting procurement procedures (page 75).

Albertans should also be pleased that Treasury Board has implemented an oversight process to monitor the travel, meal and hospitality expenses of the premier and ministers (page 77). Effective oversight is the final control to ensure that expenses are reasonable.

We found it necessary to repeat five recommendations. For an audit office to have to repeat recommendations, signals that the management and oversight groups, with the responsibility to take action, have not met their obligations.

We draw specific attention to the progress report on control systems at the Office of the Public Guardian and Trustee (page 93). We expected that after four years the OPGT's management would be able to demonstrate it has an effective system of internal controls to manage clients' trusts. The system we expected to see is not yet in place. Given the significance of the problems we identified in 2013, and the limited progress to date, it seems clear to us that the ministry has not provided consistent oversight.

The Government of Alberta has acknowledged it must change how it goes about managing information and related technology in pursuit of cost-effective service delivery. But moving to a 'one-government' solution by chipping away at departmental information and technology autonomy is flawed; the approach isn't keeping pace with rapid changes taking place in the world. If Service Alberta is to be held accountable for the desired results of information and related technology transformation, then it must be given authority to act as the managing partner. We believe Executive Council must swiftly and unequivocally direct all departments to co-operate with Service Alberta. Such direction—or disruption of the status quo—will speedily result in less waste and missed opportunity.

Executive Summaries

JUSTICE AND SOLICITOR GENERAL—FUNDING SUSTAINABLE AND COST-EFFECTIVE LEGAL AID SERVICES
(Page 33)

About this audit

Legal aid is a means of providing legal assistance to eligible low-income individuals who could not otherwise afford legal representation when dealing with matters that could significantly impact them. In Alberta, legal aid services are provided by Legal Aid Alberta, a provincially funded not-for-profit organization operating at arm's length from the government.

Some of the services that LAA provides are required under law or because of court rulings. However, not all legal aid services are mandatory, such as in cases of family law and civil law. It is up to the Alberta Department of Justice and Solicitor General to decide which non-mandatory services to fund in order to have a sustainable, effective legal aid program. Deciding on whether or not to fund a service requires analysis of how that service will benefit the province and Albertans, if at all.

We did this work in response to a request from a member of the Legislative Assembly to conduct an audit into the sustainability and funding of legal aid.

The objective of our audit was to determine whether the department has adequate systems and processes to (a) determine the funding needed to effectively deliver and sustain legal aid services and (b) monitor and evaluate the delivery of these services.

We conducted our field work in September and October 2016, and we substantially completed our audit on March 3, 2017. We did not examine any processes or procedures at LAA.

Why this is important to Albertans

Accessible, appropriate and properly funded legal aid services are essential to ensure all Albertans are supported during their interactions with the justice system, regardless of their ability to pay. Legal aid cost the Alberta government $65.8 million in 2016–2017. This amount is forecast to be higher in coming years, in part because of the poor economy and increasing demand for services. Three times in the last five years the department has provided LAA with supplemental in-year funding, most recently $9.4 million in 2016–2017. Albertans should be confident the department has adequate systems to determine what it should fund, and can afford to fund, to ensure that cost-effective and sustainable legal aid services continue to be available when needed.

Our conclusion

The department needs to improve its processes to determine the type and scope of services it can afford to fund for a sustainable and appropriate legal aid program. It has more than doubled its legal aid funding since 2005 and provided LAA with a combined $21.9 million in supplemental in-year funding over the past five years. While the department has identified potential cost savings, they will not be

enough to avoid the need for supplemental funding in 2017–2018 as well if LAA is to continue with its current level and type of services. The department also has only recently taken steps to ensure there will be processes in place to measure, monitor and report on the efficiency and effectiveness of publicly funded legal aid services.

What we found

Identifying services that can be sustained by Alberta's publicly funded legal aid system

- The department's current processes for identifying potential cost savings and efficiencies for the delivery of legal aid services do not allow it to sufficiently answer two key questions:
  - How much is it able to pay for a sustainable legal aid program?
  - What non-mandatory services should it pay for?
- The department and LAA have conducted various analyses and taken actions to find cost savings and efficiencies in delivering legal aid services, yet the pressure of finding sustainable funding for the current type and scope of services continues to increase.
- The department has provided LAA with supplemental in-year funding three times in the last five years, most recently $9.4 million in 2016 funded through a supplementary estimate from Treasury Board a month prior to the end of the 2016–2017 fiscal year.
- Unless Treasury Board continues this increased financial support to the ministry for legal aid funding into the next fiscal year, the department may again need to consider internally reallocating monies from other departmental programs in order to meet funding pressures from LAA.

Performance measures for legal aid services

- LAA has only recently added performance measures to its three-year business plan, even though these have always been required by the governance agreement.
- The ministry last reported a performance measure on the legal aid program in its 2010–2011 annual report, but this did not focus on organizational performance or whether the program was achieving its goals and desired outcomes.

What needs to be done

The Department of Justice and Solicitor General should:

- determine, through analysis, the type and scope of services Alberta's publicly funded legal aid system can provide and sustain
- ensure there are processes in place to measure, monitor and report on the quality, efficiency and cost-effectiveness of publicly funded legal aid services

SERVICE ALBERTA—SYSTEMS TO MANAGE A COMPREHENSIVE INVENTORY OF IT APPLICATIONS (Page 47)

About this audit

The Government of Alberta depends on information to deliver programs and services, and to monitor, evaluate and report on their effectiveness. The government is a $50 billion organization that spends an estimated 2.5 per cent of its budget (over $1 billion) annually on information management and technology. Effective management of its information assets is therefore critical to the government achieving its desired results.

Across government there are over one thousand IT applications used in departments. However, there is no definitive list or inventory of them. Having a comprehensive inventory of IT applications is crucial to knowing where government's investments in IT have occurred and where further investment is needed to maintain and eventually replace aging IT applications. Also, knowing what applications are in use elsewhere across the government's vast IT infrastructure can help to avoid wasteful investments implementing duplicate IT applications.

The objective of our audit was to determine if Service Alberta has effective processes and systems to establish and maintain an inventory of IT applications used across government departments. We conducted our field work from November 1, 2015 to September 15, 2016. We substantially completed the audit on October 31, 2016.

Why this is important to Albertans

IT applications do not just provide back office or administrative support; they enable delivery, evaluation and improvement of government programs and services. A comprehensive IT application inventory will help government manage its investment in IT applications more effectively. It will prevent the waste that can occur when duplicate IT applications are implemented and maintained, and ensure that aging applications have an appropriate replacement strategy defined in a timely and efficient manner.

Our conclusion

Service Alberta does not have effective processes and systems to establish and maintain a comprehensive inventory of IT applications used across the government's IT infrastructure.

What we found

- Service Alberta does not have a comprehensive inventory of IT applications used across government—only a partial list exists.
- Duplicate IT applications exist because of the lack of awareness of opportunities to leverage existing applications throughout the government.
- Service Alberta's project to create an IT application inventory does not use a formal project management approach—at the start of the audit there was no formal project charter or defined plan.

What needs to be done

Service Alberta needs to complete its plans to implement a comprehensive inventory system of all IT applications used across government, with supporting processes to maintain the inventory. If required, Service Alberta should seek the necessary authority to complete the project.

TREASURY BOARD AND FINANCE—TRAVEL, MEAL AND HOSPITALITY EXPENSES OF THE PREMIER, MINISTERS, ASSOCIATE MINISTERS AND THEIR STAFF (Page 53)

About this audit

We established an annual rotational audit of departments' systems for verifying that the travel, meal and hospitality expenses of the premier, ministers, associate ministers and their staff comply with policies. We will audit each department once every three years. This year, we audited the systems at the following departments:

- Advanced Education
- Culture and Tourism
- Education
- Energy
- Executive Council
- Health
- Service Alberta

The audit objectives were to assess whether departments have effective systems to:

- verify that the travel, meal and hospitality expenses of the premier, ministers, associate ministers and their staff comply with policies
- support the new Treasury Board Committee process to oversee these expenses of the premier, ministers and associate ministers

The Department of Treasury Board and Finance has responsibility for government expense policies, so we report our overall audit results to that department. Where our audits identify that individual departments can improve their processes, we direct specific recommendations to those individual departments—in this case, the Department of Advanced Education.

We conducted our field work between September and December 2016, and substantially completed our audit on March 14, 2017.

Why this is important to Albertans

Albertans do not expect public servants to subsidize their public service by personally paying for legitimate government business expenses. They do, however, expect public servants to spend taxpayers' dollars responsibly and prudently when conducting government business and not reward themselves at the public's expense.

Our conclusion

Advanced Education has systems in place, but these systems need improvement as they are not operating effectively to verify that expenses comply with policies. In contrast, other departments had effective systems. We noted good practices at Culture and Tourism, Education and Energy.

What we found

Advanced Education's expense review processes did not identify several deviations from policy.

What needs to be done

We recommend that the Department of Advanced Education improve its review processes for travel, meal and hospitality expenses.

ENVIRONMENT AND PARKS—ALBERTA CLIMATE CHANGE OFFICE—FOLLOW-UP AUDIT ON MANAGING THE SPECIFIED GAS EMITTERS REGULATION—ALBERTA EMISSIONS OFFSET REGISTRY (Page 59)

About this audit

The *Specified Gas Emitters Regulation* requires Alberta's large industrial facilities to limit their annual greenhouse gas emissions. If a facility exceeds its government-approved limit, it can compensate for the excess by purchasing emissions offset credits. Facilities can also compensate for excess emissions by purchasing emissions performance credits or paying into a Climate Change and Emissions Management Fund.

Emissions offsets are listed in the Alberta Emissions Offset Registry, where they can be bought and sold. The Department of Environment and Parks, which administers the *Regulation*, has outsourced the operation of the registry to an external registry provider.

Our objective was to determine if management has implemented our 2009 recommendation to:

- obtain assurance that data hosted and processed by its registry provider is accurate, complete and secure
- formalize its relationship with the registry provider

We conducted our field work between November 2016 and February 2017 and substantially completed our audit on February 14, 2017.

Why this is important to Albertans

Because the department lacks adequate assurance over whether the offset registry data is accurate, complete and secure, the offsets that regulated facilities use to comply with the *Specified Gas Emitters Regulation* could be invalid. Invalid offsets that go undetected can result in loss of revenue to the department and undermine the credibility of the systems to manage the *Regulation*.

Our conclusion

The Department of Environment and Parks has not implemented our recommendation to obtain assurance that the data processed and maintained by the registry provider is accurate, complete and secure.

What we found

Assurance that registry data is accurate, complete and secure—recommendation repeated

- The department still lacks adequate assurance that the registry data is accurate, complete and secure.
- The department signed a contract with the registry provider in 2014. Over two years later, the department has not enforced the contract requirement that would provide assurance over the data.

What needs to be done

The Department of Environment and Parks should obtain assurance that data hosted and processed by its provider of registry services is accurate, complete and secure.

INDIGENOUS RELATIONS—FOLLOW-UP AUDIT ON SYSTEMS TO ASSESS FIRST NATIONS DEVELOPMENT FUND GRANTS (Page 63)

About this audit

The First Nations Development Fund is a lottery grant program available exclusively to First Nations in Alberta. It is supported by a portion of revenues from government-owned slot machines in Alberta First Nation casinos. From 2006 to 2016, the Department of Indigenous Relations allocated over $980 million in FNDF grants to support hundreds of social, economic and community development projects in Alberta's First Nation communities.

In 2013, we found inadequacies in three aspects of the FNDF program: communication of eligibility requirements, assessment of applications, and monitoring of recipients' compliance with grant agreements. We recommended that the department improve its:

- communication of eligible uses of FNDF grant funds
- processes to review and approve grant applications by:
  - formalizing its processes to review complex grant applications
  - obtaining sufficient information to support its assessment of grant applications
- processes for monitoring compliance with reporting requirements and its actions to correct non-compliance with grant agreements

We conducted our field work from October 2015 to October 2016. We substantially completed our audit on December 5, 2016.

Why this is important to Albertans

The FNDF is an opportunity to support good social, economic and community-based projects. It's important for Albertans to know that the program is operating as intended and funded projects provide value to First Nation communities.

Our conclusion

In this follow-up audit we have concluded that management has implemented one of our three recommendations: the department has improved its systems to communicate its interpretations of eligible uses of FNDF grant funds.

We have repeated two recommendations because the department is still unable to:

- demonstrate it has made sufficient improvements to its processes to assess and approve complex grant applications
- monitor for and correct non-compliance with grant agreements

What we found

Improve review processes—recommendation repeated

- The department formalized its processes to assess complex applications, but those processes do not give sufficient guidance on the use of professional advice for complex applications, and the department has not consistently sought this advice.
- The department approved some projects without having sufficient information to support its assessment against required criteria such as the reasonableness of project costs.

Monitor for and correct non-compliance—recommendation repeated

The department does not consistently follow its processes to:

- advise First Nations of overdue reporting
- enforce compliance with reporting requirements by withholding payments
- follow up on audit findings of non-compliance
- regularly visit each First Nation to discuss matters concerning FNDF and to observe the status of projects

Formalize and communicate interpretation of eligible uses—recommendation implemented

The department has formalized and communicated its interpretation of eligible uses of funds internally to its staff and externally to FNDF applicants by improving its internal and external processes.

What needs to be done

The department still needs to:

- improve its processes to review and approve grant applications by:
  - formalizing the additional review processes it developed for complex grant applications
  - consistently obtaining sufficient information to support its assessment of complex grant applications
- improve its monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with grant agreements

SENIORS AND HOUSING—FOLLOW-UP AUDIT ON ALBERTA SOCIAL HOUSING CORPORATION'S CONTRACTING POLICY (Page 75)

About this audit

Social housing, also called affordable housing, exists for people who are unable to access the private housing market because of financial, social or other circumstances. The Department of Seniors and Housing provides social housing through the Alberta Social Housing Corporation, a legal entity created by the department to hold the social housing portfolio. The ASHC owns or financially supports over 36,000 social housing units.

Social housing units are managed by management bodies, which run and maintain the units and also plan enhancements and extensions. Until 2011, if a management body wanted to repair a housing unit or carry out maintenance, it contracted the work directly and paid for it through a capital grant from the department. Since 2011, the department has stopped allowing housing management bodies to contract directly with vendors.

We conducted our field work from June to October 2016 and substantially completed our audit on December 13, 2016.

Why this is important to Albertans

In our audit of the ASHC in 2011, we found that management bodies were not always managing contracts appropriately. We therefore recommended that the department develop a contracting policy for capital additions to its social housing portfolio and strengthen related contract management processes.

Without a contracting policy and processes for capital additions to the ASHC'S social housing portfolio, the corporation may not ensure the projects are meeting its requirements, or that it is getting good value for money.

Our conclusion

The department has implemented our recommendation by putting in place a new contracting policy along with supporting procurement procedures.

TREASURY BOARD AND FINANCE—FOLLOW-UP AUDIT ON OVERSIGHT OF THE PREMIER'S AND MINISTERS' EXPENSES (Page 77)

About this audit

In 2014 we assessed whether the then Premier and the Office of the Premier's employees complied with the Government of Alberta's travel, meal and hospitality expense policy. We found there was no formal oversight structure to monitor the office's travel expenses and use of government aircraft.

We recommended that Treasury Board improve oversight of the expenses of the premier's office and ministers' offices.

The objective of our follow-up audit was to determine whether Treasury Board has established an oversight process to monitor the premier's and ministers' expenses.

We conducted our field work in November and December 2016, and substantially completed our audit on January 23, 2017.

Why this is important to Albertans

The public expects that the premier and ministers use public money responsibly when claiming expenses. Effective oversight helps ensure that expenses are reasonable.

Our conclusion

Treasury Board has implemented our recommendation by establishing an oversight process to monitor the travel, meal and hospitality expenses of the premier and ministers.

ADVANCED EDUCATION—POST-SECONDARY INSTITUTIONS REPORT CARD (Page 81)

About this audit

This report includes an update on the report card on internal controls over financial reporting, together with comparative assessments from our 2015 and 2014 audits of colleges, technical institutions, MacEwan University and Mount Royal University. Our October 2016 report included the results of our audits at Athabasca University, University of Alberta, University of Calgary and University of Lethbridge.

Effective control environments include clear policies, well-designed processes and controls to implement and monitor compliance with policies and secure information systems. Such control environments help provide timely and accurate financial and non-financial information to manage and govern the institutions. Recommendations not implemented promptly erode the effectiveness of the institution's control environment. Weak control environments impact the quality of management's and the board of governors' decision making. This loss of control can result in an institution not achieving its goals by operating in a cost-effective manner and managing operating risks.

Why this is important to Albertans

To govern effectively, a board of governors needs management to provide accurate and timely financial information throughout the year. Strong, sustainable processes improve management's decision making ability and provide opportunities to use results analysis to communicate to Albertans the institution's performance and accountability for results.

What we found

Keyano College, Northern Lakes College, Portage College, Olds College, Lakeland College and the Alberta College of Art + Design require improvements, some significant, to the accuracy of their financial reporting and/or implementing outstanding recommendations. A report card summarizing the results of our audit of the fiscal 2016 financial reporting processes of all 16 post-secondary institutions examined in this report is included on page 82.

We issued unqualified audit opinions on the financial statements of all post-secondary institutions in 2016 (we issued unqualified audit opinions on four universities as reported in our October 2016 report).

There were no new recommendations issued to institutions

Six more institutions implemented our recommendation to improve systems to ensure compliance with legislation. Red Deer College also implemented our recommendation to improve the college's general computer control environment.

We repeated our recommendation to Northern Lakes College, Olds College and Portage College to improve systems to ensure compliance with legislation. We also repeated our recommendation to Lakeland College to improve segregation of duties in its finance department.

Fourteen out of twenty institutions have no outstanding recommendations at the end of fiscal 2016.

JUSTICE AND SOLICITOR GENERAL—PROGRESS REPORT ON CONTROL SYSTEMS AT THE OFFICE OF THE PUBLIC GUARDIAN AND TRUSTEE
(page 93)

About this progress report

In 2011 and 2012, we investigated an alleged fraud at the Office of the Public Guardian and Trustee (OPGT). We also did an audit of how the OPGT manages and protects clients' trusts. In our February 2013 public report, we concluded that vulnerable Albertans who rely on the Public Trustee were at risk of their trusts being misused or mismanaged and made five recommendations to the Office of the Public Guardian and Trustee.

The OPGT has not been able to implement all of our recommendations. We use a progress report in such situations to understand and inform the legislature and the public of what management has done to date and its plans going forward. We also use a progress report to make observations to management.

We conducted our field work between August 2016 and January 2017. We substantially completed our work on March 9, 2017.

Why this is important to Albertans

In February 2013, we reported on a public trusteeship system that had significant problems. It is now 2017 and many of the problems of 2013 still exist. Management must make changes, and the department must ensure these changes happen—vulnerable Albertans depend on it.

Our conclusion

We expected that after four years the OPGT's management would be able to demonstrate it has an effective system of internal controls to manage clients' trusts. The system we expected to see is not yet in place.

Given the significance of the problems we identified in 2013, and the limited progress to date, it seems clear to us that the department has not provided consistent oversight.

May 2017 Recommendations

This report contains four new and five repeated recommendations to government. The repeated recommendations have been made because we do not believe there has been sufficient action taken to implement our previous recommendations. We also confirm in this report that four prior recommendations have been implemented.

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring recommendations to the attention of Members of the Legislative Assembly. For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

The auditor general is the auditor of every ministry, department and regulated fund, and most provincial agencies. Under the *Government Organization Act*, ministers are responsible for administering departments and provincial legislation. Deputy ministers are delegated responsibility to support the minister in his or her role, and to act as the chief operator of a department. Ministers may also establish any boards, committees or councils they consider necessary to act in an advisory or administrative capacity for any matters under the minister's administration. A minister is responsible for oversight of the work and actions of the department and any provincial agencies under his or her administration. However, we make our recommendations to departments and provincial agencies rather than to the minister directly, given the delegated operational responsibilities and that they are in the best position to respond to and implement our recommendations. With respect to recommendations related to ministerial oversight of a provincial agency, we generally make the recommendation to the department supporting and providing advice to the minister.

We believe all of the recommendations in this report require a formal public response from the government. In instances where a recommendation has been made to a board-governed organization, we expect the organization to implement the recommendation and report back to its respective government ministry as part of proper oversight of the organization. By implementing our recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the oversight and ethics with which government operations are managed.

Reporting the status of recommendations

We follow up on all recommendations. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation and assist with the planning of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit that report to the government. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

We repeat a recommendation if we find that the implementation progress has been insufficient.

We report the status of our recommendations as:

- **Implemented**—We explain how the government implemented the recommendation.
- **Repeated**—We explain why we are repeating the recommendation and what the government must still do to implement it.

On occasion, we may make the following comments:

- **Satisfactory progress**—We may state that progress is satisfactory based on the results of a follow-up audit.
- **Progress report**—Although the recommendation is not fully implemented, we provide information when we consider it useful for MLAs to understand management's actions.

PERFORMANCE AUDITING—NEW AUDITS

Justice and Solicitor General—Funding Sustainable and Cost-Effective Legal Aid Services

Page 39

RECOMMENDATION 1: DETERMINE THE TYPE AND SCOPE OF SERVICES A PUBLIC LEGAL AID SYSTEM CAN SUSTAIN

We recommend that the Department of Justice and Solicitor General determine, through analysis, the type and scope of services Alberta's publicly funded legal aid system can provide and sustain.

CONSEQUENCES OF NOT TAKING ACTION

Without a well-defined process to identify and evaluate the type and scope of services a publicly funded legal aid system can realistically afford to sustain in the face of increasing cost and demand pressures, decisions made by the department may not be based on the information necessary to best serve Albertans.

Page 42

RECOMMENDATION 2: ENSURE PERFORMANCE MEASURES IN PLACE FOR LEGAL AID SERVICES

We recommend that the Department of Justice and Solicitor General ensure there are processes in place to measure, monitor and report on the quality, efficiency and cost-effectiveness of publicly funded legal aid services.

CONSEQUENCES OF NOT TAKING ACTION

In the absence of appropriate measuring, monitoring and results analysis reporting, the department and stakeholders will not have adequate information to assess whether legal aid services are achieving desired results efficiently and effectively for the public funds spent.

Service Alberta—Systems to Manage a Comprehensive Inventory of IT Applications

Page 51

RECOMMENDATION 3: ESTABLISH A COMPREHENSIVE INVENTORY SYSTEM FOR INFORMATION TECHNOLOGY APPLICATIONS USED ACROSS GOVERNMENT

We recommend that Service Alberta complete its plans to implement a comprehensive inventory system of all IT applications used across government, with supporting processes to maintain the inventory. If required, Service Alberta should seek the necessary authority to complete the project.

CONSEQUENCES OF NOT TAKING ACTION

Information technology applications are an important part of the government's IT infrastructure. Without an inventory of what IT applications are used and where, the government cannot effectively manage its IT investments. The risk that duplicate applications exist will continue, causing waste and missed opportunities to leverage ideas and services already in existence.

Treasury Board and Finance—Travel, Meal and Hospitality Expenses of the Premier, Ministers, Associate Ministers and Their Staff

The Department of Treasury Board and Finance has responsibility for government expense policies, so we report our overall audit results to that department. Where our audits identify that individual departments can improve their processes, we direct specific recommendations to those individual departments—in this case, the Department of Advanced Education.

Page 56

RECOMMENDATION 4: IMPROVE REVIEW OF TRAVEL, MEAL AND HOSPITALITY EXPENSES

We recommend that the Department of Advanced Education improve its review processes for travel, meal and hospitality expenses.

CONSEQUENCES OF NOT TAKING ACTION

If the department does not properly review expenses and seek clarification where needed, errors and non-compliance with policies could go undetected.

PERFORMANCE AUDITING—FOLLOW-UP AUDITS

Environment and Parks—Alberta Climate Change Office—Follow-up Audit on Managing the Specified Gas Emitters Regulation—Alberta Emissions Offset Registry

Page 62

RECOMMENDATION 5: OBTAIN ASSURANCE ON THE REGISTRY PROVIDER'S DATA—REPEATED

We again recommend that the Department of Environment and Parks obtain assurance that data hosted and processed by its provider of registry services is accurate, complete and secure.

CONSEQUENCES OF NOT TAKING ACTION

Without assurance that the registry data is accurate, complete and secure, there is a risk that offsets in the Alberta Emissions Offset Registry are invalid and are going undetected. Undetected invalid offsets can result in lost revenue that the department could use to fund Alberta's efforts to reduce emissions, and undermine the credibility of the systems to manage the *Specified Gas Emitters Regulation*.

Indigenous Relations—Follow-up Audit on Systems to Assess First Nations Development Fund Grants

Page 66

RECOMMENDATION 6: IMPROVE REVIEW PROCESSES—REPEATED

We again recommend that the Department of Indigenous Relations improve its processes to review and approve grant applications by:

- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of complex grant applications

Treasury Board and Finance—Travel, Meal and Hospitality Expenses of the Premier, Ministers, Associate Ministers and Their Staff

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AUDITOR GENERAL
Alberta

Stand-alone Performance Auditing—New Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

May 2017

Justice and Solicitor General—Funding Sustainable and Cost-Effective Legal Aid Services

INTRODUCTION

Legal aid is a means of providing legal assistance to eligible low-income individuals who could not otherwise afford legal representation when dealing with matters that could significantly impact them. In Alberta, legal aid services are provided by Legal Aid Alberta, a provincially funded not-for-profit organization operating at arm's length from the government. LAA also receives some funding from the federal government and the Alberta Law Foundation,[1] as well as through client recoveries and contributions.

Some of the services that LAA provides are required under law or because of court rulings. For example, the *Canadian Charter of Rights and Freedoms* gives individuals the right to a fair trial, and legal aid exists in part to help those who cannot afford to pay for a legal defence against the Crown in criminal prosecutions and in child welfare matters.

However, not all legal aid services are mandatory, such as in cases of family law and civil law. It is up to the Alberta Department of Justice and Solicitor General to decide which non-mandatory services to fund in order to have a sustainable, effective legal aid program.

The decision to fund a non-mandatory service is not always obvious. Some services, while initially appearing expensive, could ultimately save the government and the justice system money in other ways. Other services may not save money but could have a valuable social benefit instead. Deciding on whether or not to fund a service, therefore, requires analysis of how that service will benefit the province and Albertans, if at all.

In November 2015, cabinet approved a department-led comprehensive review of legal aid delivery. The stated goal of this review is to make recommendations on how to provide an affordable and more cost-effective legal aid program that provides the best possible coverage for low-income Albertans. As of February 2017, no changes have been made to legal aid delivery as a result of this review.

See Appendix A for additional information on Alberta's legal aid services.

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to determine whether the department has adequate systems and processes to (a) determine the funding needed to effectively deliver and sustain legal aid services and (b) monitor and evaluate the delivery of these services.

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[1] An annual grant paid by the Alberta Law Foundation from the percentage of interest earned on lawyers' general trust accounts pursuant to the *Legal Profession Act*.

We did this work in response to a request from a member of the Legislative Assembly to conduct an audit into the sustainability and funding of legal aid.

WHY THIS IS IMPORTANT TO ALBERTANS

Accessible, appropriate and properly funded legal aid services are essential to ensure all Albertans are supported during their interactions with the justice system, regardless of their ability to pay. Legal aid cost the Alberta government $65.8 million in 2016–2017. This amount is forecast to be higher in coming years, in part because of the poor economy and increasing demand for services. Three times in the last five years the department has provided LAA with supplemental in-year funding, most recently $9.4 million in 2016–2017. Albertans should be confident the department has adequate systems to determine what it should fund, and can afford to fund, to ensure that cost-effective and sustainable legal aid services continue to be available when needed.

WHAT WE EXAMINED

We examined:

- documents Legal Aid Alberta provided to the department between April 1, 2014 and January 31, 2017, including business plans, budgets and monthly financial reports and activity summaries
- department reports, briefing notes and other documents referencing legal aid or LAA between April 1, 2014 and January 31, 2017
- publicly available business plans, strategic plans and annual reports for LAA and legal aid plans in B.C., Saskatchewan, Manitoba and Ontario

We also conducted interviews with department staff and senior management at LAA.

We conducted our field work in September and October 2016, and we substantially completed our audit on March 3, 2017. We did not examine any processes or procedures at LAA.

CONCLUSION

The department needs to improve its processes to determine the type and scope of services it can afford to fund for a sustainable and appropriate legal aid program. It has more than doubled its legal aid funding since 2005 and provided LAA with a combined $21.9 million in supplemental in-year funding over the past five years.[2] While the department has identified potential cost savings, they will not be enough to avoid the need for supplemental funding in 2017–2018 as well if LAA is to continue with its current level and type of services. The department also has only recently taken steps to ensure there will be processes in place to measure, monitor and report on the efficiency and effectiveness of publicly funded legal aid services.

[2] $7 million in fiscal 2012–2013, $5.5 million in fiscal 2014–2015 and $9.4 million in fiscal 2016–2017.

FINDINGS AND RECOMMENDATIONS

Identifying services that can be sustained by Alberta's publicly funded legal aid system

CONTEXT

Legal Aid Alberta delivers legal aid services in the areas of criminal and civil law in Alberta. It does this under the authority and terms of an agreement with the Ministry of Justice and Solicitor General and the Law Society of Alberta.[3] LAA operates at arm's length from the government—this is necessary because part of its role is to provide legal representation for individuals facing prosecution from the Crown. Some of the services provided by LAA are required under law or because of court rulings:

- depending on case-specific circumstances, to protect an individual's rights under the *Canadian Charter of Rights and Freedoms* against an action by the state, such as the right to a fair trial
- because of Supreme Court rulings, such as Brydges Duty Counsel[4]
- where specifically required by statute, such as youth criminal defence for all offences[5] or as directed by the court in certain child welfare matters, such as proceedings under the *Child, Youth and Family Enhancement Act*

Other services are not mandatory but are currently funded and provided through agreement with the government so that low-income Albertans can obtain legal assistance they could not otherwise afford for matters that may significantly impact their lives. The intent of providing these services is also to help ensure more efficient operation of the court system in criminal and family law matters by reducing the number of self-represented participants in court. These services include:

- Duty Counsel in criminal and youth courts
- non-criminal Duty Counsel in provincial and Queen's Bench family courts
- legal representation for other family matters, such as divorce, spousal and child support, and custody matters

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The department should have processes to:

- periodically review and assess legal aid services covered by the governance agreement to ensure the legal aid plan is accessible and responsive to Albertans' needs and is achieving the department's goals for the justice system
- identify what amount of funding is needed to effectively deliver and sustain legal aid services as set out in the most current governance agreement, and identify where that funding should come from
- identify the risks of underfunded or underperforming legal aid services to:
  - access to and function of the justice system
  - department goals

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[3] This governance agreement sets out the types of services to be provided by LAA in the areas of criminal and civil law as well as the authority, responsibilities and obligations of each of the three parties signatory to the agreement. The current agreement expires March 31, 2017. This agreement is unique in Canada; all other provinces except PEI use a statute-based commission to deliver legal aid services. PEI uses a government-delivered model. http://www.legalaid.ab.ca/about/Documents/Legal%20Aid%20Governance%20Agreement%20dated%20November%206%202015.pdf.

[4] From a 1990 Supreme Court of Canada decision, *R. v. Brydges*, that an individual's right to retain and instruct counsel under Section 10(b) of the *Canadian Charter of Rights and Freedoms* imposed a duty on the police to provide information and access to a legal aid lawyer if needed.

[5] Section 25 of the *Youth Criminal Justice Act*.

OUR AUDIT FINDINGS

KEY FINDINGS

- The department's current processes for identifying potential cost savings and efficiencies for the delivery of legal aid services do not allow it to sufficiently answer two key questions:
  - How much is it able to pay for a sustainable legal aid program?
  - What non-mandatory services should it pay for?
- The department and Legal Aid Alberta have conducted various analyses and taken actions to find cost savings and efficiencies in delivering legal aid services, yet the pressure of finding sustainable funding for the current type and scope of services continues to increase.
- The department has provided Legal Aid Alberta with supplemental in-year funding three times in the last five years, most recently $9.4 million in 2016 funded through a supplementary estimate from Treasury Board a month prior to the end of the 2016–2017 fiscal year.
- Unless Treasury Board continues this increased financial support to the ministry for legal aid funding into the next fiscal year, the department may again need to consider internally reallocating monies from other departmental programs in order to meet funding pressures from Legal Aid Alberta.

Two key questions

As the primary funder of the legal aid system,[6] the department should be able to answer two key questions:

- How much is it able to pay for a sustainable legal aid program?
- What non-mandatory services should it pay for?

Neither question has been sufficiently answered with the department's current processes for identifying potential cost savings and efficiencies for the delivery of legal aid services.

Continuing funding pressures

The department has more than doubled its funding to LAA since 2005.[7] In contrast, federal funding has remained relatively constant at 2005 levels, except for a recent $1.3 million increase. Revenue received from the Alberta Law Foundation and client recoveries has declined because of continuing low interest rates and poor economic conditions.

Despite these increases in provincial funding, LAA's operating expenses have exceeded revenues in five of the past seven fiscal years. To prevent LAA budget shortfalls and possible service delivery cuts, the department provided supplemental in-year funding grants of $7 million in fiscal 2012–2013 and $5.5 million in fiscal 2014–2015.

In November 2015 the Minister of Justice and Solicitor General approved increases in two key cost drivers to the delivery of legal aid services:[8]

- a three per cent increase in the financial eligibility guideline (FEG) amounts[9]
- a 10 per cent increase in the tariff rate[10] to $92.40 per hour

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6 For the fiscal year 2016–2017 the Alberta government provided 78 per cent of LAA's total funding; see Appendix A for more information.

7 From $20.25 million to $55.2 million as of April 1, 2015, as set out in documentation provided by the department; we did not independently verify these numbers.

8 Another key cost driver is scope of services offered.

9 See Appendix A for the current financial eligibility guideline amounts.

10 As defined in LAA Rules 2015: "the detailed statement of the amount and type of legal fees and disbursements a roster lawyer may ask Legal Aid Alberta to pay the lawyer for legal services provided under a certificate." See Appendix A for additional information.

In 2016 the government approved $68.5 million in funding[11] for LAA, which was $6.5 million less than LAA had initially requested for 2016–2017 to cover its expected increase in operating costs from the tariff and FEG increases. LAA subsequently advised the department this level of funding left it $9.4 million short of what it needed to provide the current approved level of services to the end of March 2017. LAA indicated that without this funding it would have to stop issuing new legal representation certificates[12] after September 30, 2016 so as to remain operationally viable without proposing further cuts to service.

The department did give LAA the additional $9.4 million, initially by considering reallocating funding from some of the department's other programs.[13] At that time, the justice minister advised LAA that this internal reallocation was not a trend that could continue in future years since it took funds and service capacity from other programs in the department that faced similar demand challenges and cost pressures. The minister further noted that the continued escalation of costs to provide legal aid services is a critical concern, and that significant reduction in projected expenditure growth is necessary. However, a month prior to the end of the 2016–2017 fiscal year, Treasury Board proposed to give the ministry this $9.4 million as part of a budget increase done through a supplementary estimate.[14]

In its most recent business plan submission,[15] LAA says it will need this top-up funding of $9.4 million again in 2017–2018, as well as an additional $5.1 million,[16] if it is to be able to provide all approved services. Further, this additional funding will be enough only if LAA is able to successfully implement the cost-saving options it has proposed (see below). Unless Treasury Board continues this increased financial support to the ministry for legal aid funding into the next fiscal year, the department may again need to consider internally reallocating monies from other departmental programs in order to meet funding pressures from LAA.

Steps taken to identify potential cost savings

Both the department and LAA have undertaken or commissioned various analyses, and met on various occasions, to identify potential cost savings and efficiencies in the delivery of legal aid services. For example:

- Corporate Internal Audit Services (CIAS) performed an analysis for the department that identified and costed out various cost-saving scenarios, primarily around changes to the delivery of currently approved services or identified administrative processes.
- CIAS developed a high level cost model to show how various service delivery changes to LAA's current three core service areas might affect LAA's revenues, expenses and anticipated net savings or increased costs.[17]
- LAA provided the department with a number of options in mid-2016, including reductions and changes to service delivery that could potentially generate sufficient cost savings for it to be able to operate in the next two fiscal years with no funding increase.

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[11] This consisted of $57.7 million in provincial funding, which included a $2.5 million increase over the previous year and $10.8 million in federal funding.

[12] As defined in LAA Rules 2015: "the document issued by Legal Aid Alberta to a service provider authorizing him or her to provide specified legal services to a client." See Appendix A for additional information.

[13] Based on funding composition data provided by the department, part of this $9.4 million was offset by the recent $1.3 million increase in federal funding. The department would have to find the remaining $8.1 million through internal budget reallocation, bringing the provincial portion of LAA funding to $65.8 million for 2016–2017.

[14] The government has yet to vote on and approve this supplementary estimate as of the substantial completion date of our audit, March 3, 2017. Department management expects this will occur shortly after the spring session starts on March 2.

[15] Legal Aid Alberta 3-Year Business Plan (2017/18–2019/20), dated 27 January 2017.

[16] $3.8 million of this would come from the Alberta government and $1.3 million from an expected increase in federal funding.

[17] These are the Criminal Resolution Office, Family Law Office and Youth Criminal Defence Office.

- In November 2016 LAA provided the department with additional proposed changes to service delivery and identified possible sources of additional program funding so as to find potential savings for the fiscal years 2017–2018 and 2018–2019.

What cost savings or efficiencies may come from these proposals will be realized only as they are implemented.

Changes made to service delivery

The department and LAA have taken some concrete action to seek out efficiencies and cost savings in legal aid service delivery. For example, in November 2015 LAA, with the minister's approval:

- discontinued providing services that only offered legal information, referral and advice, concentrating instead on providing full legal representation services
- discontinued offering representation in some civil matters such as employment, debt and housing
- made family duty counsel available in Provincial and Queen's Bench courts outside Edmonton and Calgary, where a need for this was identified
- established a pilot appeal mechanism to reduce the number of Rowbotham applications[18] being made to the courts

Despite these efforts, the cost of providing the current type and scope of legal aid services continues to increase, as do the pressures and challenges the department faces in finding sustainable funding.

Additional analysis needed

As part of its current comprehensive review of legal aid delivery, the department has sought input from various stakeholders and users of legal aid services throughout the province. It has also done cross-jurisdictional comparisons with other provinces' legal aid programs around the scope of services provided and tariff and fee structures.

However, we have not seen any analysis by the department focusing on areas such as:

- the type and scope of non-mandatory services it can afford to fund, factoring in cost drivers it can control (such as financial eligibility guidelines, scope of services, or tariff rates) and those it cannot (such as the economy and demand for service)
- what the maximum sustainable funding levels are for non-mandatory services it wishes to fund without having to divert funding from other departmental programs
- the costs and benefits (both quantitative and qualitative) of the various non-mandatory services to the justice system, to other government programs and to low-income Albertans
- whether there should be changes to the way some or all non-mandatory legal aid services are funded, such as capping annual funding regardless of demand or having different FEG amounts

This analysis would help the department, as the primary funder of legal aid services, establish an evidence-based baseline of what is an affordable, sustainable and appropriate legal aid program. It could then move forward and work with LAA to ensure the provider delivers these legal aid services in an economical and efficient manner.

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[18] Rowbotham applications for a state-funded lawyer are granted when an individual cannot afford a lawyer, has been rejected by legal aid, and the courts rule would have their Charter right to a fair trial violated because of a lack of legal representation. Rowbotham applications increased from fewer than five in 2013–2014 to 323 in 2014–2015 (Legal Aid Alberta 2015 Annual Report, page 18).

A very simple analogy may be building a house: sometimes a person has to make a difficult decision between what they want and what they can really afford in terms of size, style, location, property taxes, upkeep, etc.

Under the terms of the current agreement LAA shall provide to the minister any financial, statistical or other non–Legal Aid, client-specific information relating to the business and operations of LAA and the services provided by it that may be reasonably requested by the minister.[19] This information would help the department to do the type of analysis described above.

Determining value to justice system of legal aid services

In a November 2013 report, Reaching Equal Justice: An Invitation to Envision and Act, the Canadian Bar Association reported that a number of studies from Australia, England and the U.S. concluded that the average social return on investment for every dollar spent on legal aid spending was a saving of about six dollars in public funds elsewhere.[20] The report also referenced a 2009 Australian PricewaterhouseCoopers study that found every dollar spent on family law legal aid provided a benefit to the overall justice system of between $1.60 and $2.25.[21]

The department does not currently have a process that could determine or validate similar findings for Alberta to help it decide the type and scope of non-mandatory legal aid services it should pay for to best meet Albertans' needs. It is aware of the possible negative ripple effects and expense an underperforming legal aid system can have on the justice system: more unrepresented individuals (leading to more adjournments), longer trial times, additional administration costs, delays in trial scheduling, increased remand of individuals unable to make bail while they wait for trials, etc. However, it has not yet quantified what the economic costs to the justice system or the impact on users of legal aid would be from reducing or removing certain services. Department management indicated they would need a performance measurement framework with associated benchmark indicators to help them determine this, something which is not currently in place.

The department currently has systems to collect data such as the number of people remanded in custody while they get legal representation for bail hearings (and the associated cost to keep them in jail), criminal trial lead times, and how many defendants self-represent for court proceedings. However, the department does not specifically analyze how these results are affected, if at all, by the number of eligible individuals unable to obtain legal aid.

RECOMMENDATION 1: DETERMINE THE TYPE AND SCOPE OF SERVICES A PUBLIC LEGAL AID SYSTEM CAN SUSTAIN

We recommend that the Department of Justice and Solicitor General determine, through analysis, the type and scope of services Alberta's publicly funded legal aid system can provide and sustain.

CONSEQUENCES OF NOT TAKING ACTION

Without a well-defined process to identify and evaluate the type and scope of services a publicly funded legal aid system can realistically afford to sustain in the face of increasing cost and demand pressures, decisions made by the department may not be based on the information necessary to best serve Albertans.

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[19] Section 13(c) of the governance agreement.

[20] Canadian Bar Association, https://www.cba.org/Publications-Resources/Resources/Equal-Justice-Initiative/Reaching-Equal-Justice-An-Invitation-to-Envisi-(1).

[21] Same reference, page 55.

Performance measures for legal aid services

CONTEXT

Before an organization can assess the effectiveness and efficiency of a particular program, it must obtain information to measure and analyze the results.

The organization should:

- identify expected results and strategies to achieve the results
- create relevant performance measures for internal and external reporting
- set targets for the performance measures
- analyze the current results for the performance measures against the targets, as well as analyzing trends in relation to prior years
- identify ways to improve
- develop and implement a plan to improve
- report results in relation to desired outcomes, including lessons learned and plans for improvement

The current governance agreement between the ministry and Legal Aid Alberta for delivery of legal aid services stipulates that the LAA annual budget and business plan must include key program and business performance measures in regard to quality, efficiency and cost-effectiveness. The ministry approves both the budget and the business plan.

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The department should have processes to:

- ensure Legal Aid Alberta provides appropriate key program and business performance measures in its annual budget and business plan
- obtain sufficient, appropriate and timely reporting from Legal Aid Alberta
- analyze and evaluate the reporting received from Legal Aid Alberta so that the department can conclude if the services provided are meeting identified goals and performance measures for legal aid services and the justice system
- publicly report on the performance of legal aid services

OUR AUDIT FINDINGS

KEY FINDINGS

- Legal Aid Alberta has only recently added performance measures to its three-year business plan, even though these have always been required by the governance agreement.
- The ministry last reported a performance measure on the legal aid program in its 2010–2011 annual report, but this did not focus on organizational performance or whether the program was achieving its goals and desired outcomes.

Internal measuring and monitoring

None of the following documents prepared by LAA include any reporting on established or proposed performance measures:

- LAA's 2015–2016 budget and business plan, which contains a proposal for a technology capital project to improve monitoring and reporting
- LAA's 2016 annual report, which, as with previous years' reports, contains only statistical information, such as the number and types of services provided—on its own, this kind of statistical information does not provide a measure of the quality or effectiveness of program or service delivery
- LAA's three-year strategic plan[22]

LAA last included a strategic goals and performance measures section in its 2012–2013 to 2014–2015 corporate business plan.

Other Canadian legal aid services have more robust external reporting in this area. Legal Aid Ontario has a section in its 2014–2015 public annual report setting out the results of a number of key performance indicators.[23] Legal Aid Saskatchewan reported on three identified measures of success in its 2015–2016 annual report.[24]

Despite the weaknesses mentioned above, we did not find any evidence that the department had asked LAA for an explanation for the absence of performance measures in these documents. Only recently has the department requested LAA add measures to its three-year business plan that are relevant to managing performance and which LAA will use for business decision-making processes.[25] Subsequently, LAA has now included a section in its most recent three-year business plan submitted to the department setting out a number of critical strategic priorities with corresponding goals and target measures.[26] It still remains to be seen how LAA will report on the performance results of these measures.

The department does receive monthly management reports from LAA, which include financial and operation highlights and various variance analyses, as well as the current financial position (actual versus budget and variances). While these reports do allow the department to monitor the ongoing state of LAA's finances, in the absence of established benchmarks they do not permit the department to fully measure or conclude on the efficiency and effectiveness of the delivery of publicly funded legal aid services.

Ministry external reporting

The ministry last reported a performance measure on the legal aid program in its 2010–2011 annual report. This was a satisfaction measure of the program based on a survey of past clients. There were no measures that focused on organizational performance or whether the program was achieving its goals and desired outcomes. Satisfaction measures should rarely be the only measure; they should be used in conjunction with measures focusing on organizational performance.

The ministry has a priority initiative directly related to legal aid in its 2015–2016 annual report.[27] We would expect the ministry to include information to enable readers to assess the progress made toward

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[22] Legal Aid Alberta Strategic Plan 2014/15–2016/17, http://www.legalaid.ab.ca/about/Pages/Business-Plan.aspx.
[23] Legal Aid Ontario 2014–2015 Annual Report, http://www.legalaid.on.ca/en/publications/reports.asp.
[24] Legal Aid Saskatchewan 2015–2016 Annual Report, http://www.legalaid.sk.ca/community_resources/annual_reports.php.
[25] This was contained in a November 25, 2016 email sent to LAA.
[26] Legal Aid Alberta 3 Year Business Plan (2017/18–2019/20) dated 27 January 2017.
[27] Justice and Solicitor General Annual Report 2015–2016, Desired Outcome 3.1: Engage with partners and stakeholders to support improvement to legal aid, page 22, https://justice.alberta.ca/programs_services/about_us/Publications%20Library%20%20About%20Us/JSGAnnualReport-2015-2016.aspx/DispForm.aspx?ID=80.

this priority initiative. We found two activities related to legal aid cited within the narrative. We did not observe reporting on:

- targets, historical information or performance measures for legal aid
- whether desired results for legal aid were achieved or lessons were learned
- the costs related to specific program expenditures of legal aid

RECOMMENDATION 2: ENSURE PERFORMANCE MEASURES IN PLACE FOR LEGAL AID SERVICES

We recommend that the Department of Justice and Solicitor General ensure there are processes in place to measure, monitor and report on the quality, efficiency and cost-effectiveness of publicly funded legal aid services.

CONSEQUENCES OF NOT TAKING ACTION

In the absence of appropriate measuring, monitoring and results analysis reporting, the department and stakeholders will not have adequate information to assess whether legal aid services are achieving desired results efficiently and effectively for the public funds spent.

APPENDIX A: ADDITIONAL INFORMATION ON ALBERTA'S LEGAL AID SERVICES

Primary sources of LAA funding

Fiscal year	Federal government[28]	% of total revenue	Alberta government	% of total revenue	Alberta Law Foundation	% of total revenue	Recoveries and client contributions	% of total revenue
2016–17*	$12.1M	14%	**$65.8M**	**78%**	$3.0M	4%	$3.5M	4%
2015–16	$10.8M	14%	**$55.2M**	**72%**	$6.0M	8%	$4.0M	5%
2014–15	$10.9M	14%	**$53.4M**	**71%**	$6.0M	8%	$4.3M	6%
2013–14	$10.9M	16%	**$47.9M**	**69%**	$5.5M	8%	$4.3M	6%
2012–13	$10.8M	14%	**$55.0M**	**72%**	$5.5M	7%	$4.5M	6%

* Amounts based on estimates.

Eligibility for legal aid

For adult matters, eligibility is determined using a means test that considers both an applicant's financial situation (whether household income, including assets, is below established eligibility thresholds) and the nature of their legal manner. All youth (anyone between 12 and 18 years of age) are eligible for representation through legal aid for criminal matters, as mandated under the *Youth Criminal Justice Act*.

Alberta's financial eligibility guidelines (FEGs) for legal aid as of November 2016 are:

FAMILY SIZE*	MONTHLY INCOME (NET)	ANNUAL INCOME (NET)
1	$1,638	$19,653
2	$2,027	$24,333
3	$2,885	$34,627
4	$3,120	$37,434
5	$3,354	$40,242
6+	$3,587	$43,050

*Includes the applicant, their spouse and any dependents, such as children, or a common law spouse.

Lawyers used

LAA uses either its own in-house staff lawyers or appointed private bar roster lawyers to provide legal representation for eligible clients. It appoints private lawyers by issuing them certificates. LAA's rules define a certificate as "the document issued by Legal Aid Alberta to a service provider authorizing him or her to provide specified legal services to a client."[29] The rules also set out the fees (referred to as "tariffs") that lawyers can charge for the different types of certificates issued by LAA. These tariffs are a combination of block fees and hourly payments (currently $92.40 per hour). LAA issued 38,289 certificates in fiscal 2015–2016, most of which (70 per cent) were for adult criminal matters. This number represented a 38 per cent increase from the previous fiscal year.[30] Typically it can take several years to conclude the legal matter for which a certificate is issued, so the associated costs must be accounted for over the corresponding fiscal years.

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[28] Revenue received from both levels of government cumulatively shows as sourced from the Province of Alberta on LAA's public Statement of Revenues and Expenses. The majority of the federal government contribution must go to youth and adult criminal matters (95 per cent of $10.8 million contributed in fiscal 2016), with the remainder to be used for immigration and refugee matters.

[29] LAA Rules 2015, http://www.legalaid.ab.ca/information-resources/Documents/Rules%20and%20Policies/LAA%20Rules%20Dec%207%202015.pdf.

[30] Legal Aid Alberta 2016 Annual Report, page 9; we did not independently verify this number.

Private bar lawyers provide the majority of legal representation services by certificate for LAA clients: 87 per cent of the total in fiscal 2014–2015.[31]

LAA legal representation services

Child welfare matters in accordance with the *Child Youth and Family Enhancement Act*	• Legally required
Youth (12 to 18 years) criminal defence for all offences under the *Youth Criminal Justice Act*	• Legally required
Adult criminal defence • All indictable offences in the *Criminal Code* or any other federal act • Summary conviction offences where there is a risk of imprisonment or loss of livelihood upon conviction	• Legally required • Must meet financial eligibility guidelines
Youth and adult criminal duty counsel (province-wide)	• Available in all criminal adult and youth docket courts (court of first appearance) across Alberta • Free to all Albertans
Brydges duty counsel (youth and adult) for criminal matters	• Legally required • Free 24-hour telephone service available to all Albertans under arrest, in custody, or under active investigation by law enforcement who need immediate legal advice on their charter rights.
Family duty counsel (non-criminal matters)	• Provincial and Queen's Bench court: Edmonton, Calgary, Siksika Nation, Fort McMurray, Grande Prairie, St. Paul, Wetaskiwin, Red Deer, Medicine Hat • Free to all Albertans
Emergency protection order duty counsel (relating to domestic violence)	• Provincial and Queen's Bench court: Edmonton, Calgary, Lethbridge and surrounding areas • Fee to all Albertans

[31] Legal Aid Alberta 2015 Annual Report, page 18; we did not independently verify this number.

Other duty counsel	• Disciplinary hearings at correctional facilities • Mental Health Review Panel hearings • Free to all Albertans
Full legal representation in family matters	• Divorce • Parenting • Constructive trust • Spousal and child support • Interjurisdictional support orders • Custody matters
Other areas of full legal representation	• Youth in high-conflict family matters • Guardianship and trusteeship • Extradition and refugee claims • Income support and other government benefits • Hague Convention • Not criminally responsible • Parole board hearings • Dangerous offender applications • Drug treatment court programs

Examples of demand[32]

Fiscal year 2015–2016

		PER CENT CHANGE FROM PREVIOUS YEAR
Calls for service		
General	173,721	+32
In custody	56,269	+41
Total	229,900	+34
Certificates issued		
Young offenders	3,477	–2
Family/civil	8,066	+39
Adult criminal	26,746	+44
Total	38,289	+38
Duty Counsel services		
Youth Brydges	3,995	–7
Young offenders	9,616	–13
Adult Brydges	17,144	+1
Civil/family	26,480	+55
Adult criminal	148,753	+30
Total	205,988	+25

[32] Legal Aid Alberta 2016 Annual Report; we did not independently verify these numbers.

Service Alberta—Systems to Manage a Comprehensive Inventory of IT Applications

INTRODUCTION

The Government of Alberta depends on information to deliver programs and services, and to monitor, evaluate and report on their effectiveness. The government is a $50 billion organization that spends an estimated 2.5 per cent of its budget (over $1 billion) annually on information management and technology.[1] Effective management of its information assets is therefore critical to the government achieving its desired results.

Managing information[2] means knowing what information is required by whom and for what organizational purpose, and then putting in place the necessary information technology infrastructure to ensure that information is available to the right people at the right time. IT infrastructure includes computer hardware, security control and devices and IT applications.[3]

Across government there are over one thousand IT applications[4] used in departments. However, there is no definitive list or inventory of them. Having a comprehensive inventory of IT applications is crucial to knowing where government's investments in IT have occurred and where further investment is needed to maintain and eventually replace aging IT applications. Also, knowing what applications are in use elsewhere across the government's vast IT infrastructure can help to avoid wasteful investments implementing duplicate IT applications.

The new government-wide approach to managing IT infrastructure[5]

Service Alberta's 2016–2017 five-year information management and information technology (IMIT) strategic plan includes a strategy to implement a single unified, integrated and centrally governed approach to managing the IT infrastructure across government. The purpose of the strategy is to transform how information technology is governed, funded, managed and thought of strategically. Service Alberta is already working on initiatives with other departments to centralize operations for data centres, network services and disaster recovery services, with the aim of reducing duplication and wastefulness in the current IT infrastructure.

The new one-government IMIT strategy was developed in collaboration with other department IT leaders (CIOs)[6] through the CIO Council and Executive Council's Information Management and Technology Integration Committee, made up of a subset of deputy ministers. The strategy was published on Service Alberta's website (dated October 3, 2016). However, the department informed us

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1 Service Alberta's 5-year Information Management & Technology strategic plan 2016/17–2020/21, Introduction. http://servicealberta.ca.

2 Managing information as an asset means bringing together people, processes and technology to effectively manage an organization's information. http://www.firstsanfrancisopartners.com/enterprise-information-management.

3 An IT application (for the purpose of this audit) is software, supported by a department or IT services function that is used to automate the processing of information for the benefit of the user. This excludes end-user computing systems such as spreadsheets.

4 Transcripts from the Standing Committee on Public Accounts—Service Alberta, May 24, 2016. http://www.assembly.ab.ca.

5 Service Alberta's 5-year Information Management & Technology strategic plan 2016/17–2020/21, Government-wide Approach to Managing Information Technology. http://servicealberta.ca.

6 A chief information officer is a senior management position responsible for the information technology and computer systems that support a department's goals and business plans.

that the strategy had not yet been officially approved by the government (Executive Council), and it said an implementation plan is required for the approval and is currently under development.

Previous IT infrastructure audits

Between 2008 and 2014 we carried out three audits related to the government's IT infrastructure, all identifying areas where improvements were needed. We recommended that:

- Executive Council and Service Alberta improve security management control processes
- Service Alberta improve IT control standards
- Service Alberta improve the recovery of critical information technology applications

An underlying theme in all three audits was that Service Alberta did not have complete knowledge of the government's IT infrastructure (no government entity had complete knowledge, in fact). The current audit focuses on another important aspect of the IT infrastructure: the IT applications.

We have directed our audit inquires to Service Alberta because it had already started a project to build the applications inventory on behalf of the government. However, the department informed us that it does not have the official authority or mandate from the government (Executive Council) to complete the applications inventory on behalf of the government or to direct other departments to participate in the project. The deputy minister confirmed that the department will continue collaborating with other departments for this project through the CIO Council.

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to determine if Service Alberta has effective processes and systems to establish and maintain an inventory of IT applications used across government departments.

We conducted our field work from November 1, 2015 to September 15, 2016. We substantially completed the audit on October 31, 2016.

WHY THIS IS IMPORTANT TO ALBERTANS

IT applications do not just provide back office or administrative support; they enable delivery, evaluation and improvement of government programs and services. A comprehensive IT application inventory will help government manage its investment in IT applications more effectively. It will prevent the waste that can occur when duplicate IT applications are implemented and maintained, and ensure that aging applications have an appropriate replacement strategy defined in a timely and efficient manner.

WHAT WE EXAMINED

We examined Service Alberta's IT application database tool and the department's efforts to establish a comprehensive inventory system as part of its IT application model project. We met with other department IT heads to understand their understanding of this initiative and their involvement.

Our audit inquiries were restricted to IT application inventory processes that occur within the government's corporate network of departments and did not include IT services in the ministries' agencies, boards and commissions.

CONCLUSION

Because of the significance of the key findings described below, we conclude that Service Alberta does not have effective processes and systems to establish and maintain a comprehensive inventory of IT applications used across the government's IT infrastructure.

FINDINGS AND RECOMMENDATIONS

CONTEXT

Building an effective IT application inventory system is a process of collecting important information on applications used across an organization. The aim is to create a controlled catalogue "book of record" to be used as a reliable source of what information technology is used where.

It is difficult to take an inventory manually for an organization that has multiple IT infrastructures spread across multiple departments across the province. A rigorous system and supporting processes are needed to ensure effective communication and coordination and to avoid mistakes and omissions. Ongoing processes are needed to keep inventory information up to date.

Effective IT application inventory systems are essential for an organization to know the true cost of its IT investment, to strengthen its ability to manage technology performance, and to ensure it has the capability to mitigate potential IT security risks.

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

Service Alberta should:

- have effective processes to develop and maintain an inventory of IT applications used across government departments
- apply project management rigour for implementing the inventory system and maintenance procedures, to ensure it achieves desired results

We developed our criteria using PMI[7] and ISACA's COBIT 5[8] standards, controls and guidelines for successful IT risk management practices related to establishing and maintaining an IT application inventory system.

OUR AUDIT FINDINGS

KEY FINDING(S)

- Service Alberta does not have a comprehensive inventory of IT applications used across government—only a partial list exists.
- Duplicate IT applications exist because of the lack of awareness of opportunities to leverage existing applications throughout the government.
- Service Alberta's project to create an IT application inventory does not use a formal project management approach—at the start of the audit there is no formal project charter or defined plan.

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7 The Project Management Institute is an industry leader and expert in effective information technology project management controls, governance and oversight systems.

8 ISACA is the industry leader in IT control processes to support information technology risk management practices and oversight systems. COBIT 5 is an industry standard on IT controls. We used control objective BAI09 (Manage Assets) as the basis for our criteria. www.isaca.org.

The government's IT application inventory is not complete

The department's Service Modernization Division uses a database to keep track of applications[9] used across government departments, but the database contains errors and omissions. Application names were missing or wrong, and in some cases important details about an application were missing, such as its description and purpose, the operating system it runs on, the programming language it uses and its location in the corporate or department networks.

Further, not all departments have complete records either. There is no formal process for departments to keep track of their applications, nor is there a process to provide updates to Service Alberta for entry into the IT application database.

Our discussions with four other departments[10] confirmed that record keeping for IT applications is an ad hoc activity, and the information that departments previously provided to Service Alberta in 2014 may not be complete or may contain errors that require manual updates. We found inconsistencies between the information provided by the departments and what was actually recorded in the inventory database.

Service Alberta does not verify the inventory information provided by the departments.

Duplicate IT applications

We found instances where duplicate applications have been implemented across multiple departments. In some cases the same software product was purchased and installed. For example, there are nine grant management applications[11] and 19 business intelligence reporting[12] applications listed in the IT applications inventory database that have been implemented in multiple departments. Decisions to implement multiple versions of these applications may have been appropriate. However, without a comprehensive inventory of already in-use applications, opportunities to leverage existing applications may have been missed, with potential cost implications.

Duplicate IT applications are wasteful to taxpayers. Government has incurred extra cost to purchase and maintain multiple and similar software licenses, and to provide support and maintenance resources for multiple versions of similar IT applications.

We did not quantify the actual costs wasted, because this information was not readily available: the current IT applications inventory is not complete and does not include costs.

New IT application model project is not formalized

In 2013, the Department of Treasury Board and Finance commissioned a results-based budgeting (RBB)[13] review that included risks associated with the oversight of IT service delivery and related IT infrastructure across government. Recommendations from the RBB review identified the need to establish a new corporate IT application model containing an updated IT investment management process with central oversight of funding and prioritization of capital spending for IT.

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[9] IT applications that are maintained by a department, excluding end-user computing applications such as spreadsheets.

[10] Departments of Justice and Solicitor General, Infrastructure, Transportation, and Environment and Parks.

[11] The Grantium application (grant management administration software) is recorded in the inventory for the departments of Advanced Education, Agriculture and Forestry, and Health. There may be others.

[12] Business intelligence systems provide enhanced reporting on business data stored in IT application databases. Cognos reporting software is recorded in the inventory for the business intelligence applications. There may be others.

[13] Results-based budgeting is an initiative to improve the effectiveness and efficiency of government programs and services.

The department determined that a comprehensive inventory of all IT applications used across government was a foundational piece for the new application model and began building an inventory system in 2014. In the fall of 2015 the department hired a director for this project. Shortly after that, management established a cross-department working group of representatives from the CIO Council as a key project kickoff activity. The working group had met twice as of September 2016.

At the time of our audit field work, between November 1, 2015 and September 15, 2016, there were no project documents available for our review. In addition, there were no control process documents available to demonstrate how application information is collected. Management provided us with a draft project charter after our field work. However, the document included only a brief summary of initial activities planned, and it did not contain details on project risks, benefits, costs and deliverables with timelines.

Approximately two years have passed since Service Alberta started to build the IT application inventory system, and it is still a work-in-progress. Although there have been efforts to move the project forward, without formal project management rigour it is likely this project will fail and further delays to establish a comprehensive IT application inventory system will occur.

RECOMMENDATION 3: ESTABLISH A COMPREHENSIVE INVENTORY SYSTEM FOR INFORMATION TECHNOLOGY APPLICATIONS USED ACROSS GOVERNMENT

We recommend that Service Alberta complete its plans to implement a comprehensive inventory system of all IT applications used across government, with supporting processes to maintain the inventory. If required, Service Alberta should seek the necessary authority to complete the project.

CONSEQUENCES OF NOT TAKING ACTION

Information technology applications are an important part of the government's IT infrastructure. Without an inventory of what IT applications are used and where, the government cannot effectively manage its IT investments. The risk that duplicate applications exist will continue, causing waste and missed opportunities to leverage ideas and services already in existence.

Treasury Board and Finance—Travel, Meal and Hospitality Expenses of the Premier, Ministers, Associate Ministers and Their Staff

INTRODUCTION

Public servants may incur expenses for travel, meals and hospitality related to government business, and can claim expense reimbursements and certain allowances. They have to follow government policies on these types of expenses,[1] and policies on procurement and credit cards.

Following our audit of the expenses of the then Premier and Office of Premier,[2] we established an annual rotational audit of departments' systems for verifying that these expenses of the premier, ministers, associate ministers and their staff comply with policies.

AUDIT OBJECTIVES AND SCOPE

The audit objectives were to assess whether departments have effective systems to:

- verify that the travel, meal and hospitality expenses of the premier, ministers, associate ministers and their staff comply with policies[3]
- support the new Treasury Board Committee process to oversee these expenses for the premier, ministers and associate ministers

We follow a rotational approach, so that we audit each department once every three years. This year, we audited the systems at the following departments:

- Advanced Education
- Culture and Tourism
- Education
- Energy
- Executive Council
- Health
- Service Alberta

The Department of Treasury Board and Finance has responsibility for government expense policies, so we report our overall audit results to that department. Where our audits identify that individual departments can improve their processes, we direct specific recommendations to those individual departments—in this case, the Department of Advanced Education.

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1 http://www.finance.alberta.ca/business/planning-accountability/accountability/expenses-policies.html.
2 *Report of the Auditor General of Alberta—August 2014*, no. 1, page 19.
3 Travel, Meal and Hospitality Expenses Policy, Procurement Card Policy and Credit Card Policy.

We examined a sample of travel, meal and hospitality expenses from November 18, 2015 to September 26, 2016. Our work included reviewing documents and interviewing staff. We did not examine remuneration, employment and termination benefits or other office expenses, such as office supplies.

We conducted our field work between September and December 2016, and substantially completed our audit on March 14, 2017.

We developed the criteria for this audit based on departments' responsibilities and applicable expense policies.

WHY THIS IS IMPORTANT TO ALBERTANS

Albertans do not expect public servants to subsidize their public service by personally paying for legitimate government business expenses. They do, however, expect public servants to spend taxpayers' dollars responsibly and prudently when conducting government business and not reward themselves at the public's expense.

CONCLUSION

The table summarizes our conclusions on departments' systems and good practices.
Advanced Education has systems in place, but these systems need improvement to verify that expenses comply with policies. The recommendation and findings section below describes the weaknesses and recommendation to Advanced Education. We did not identify weaknesses which required recommendations in other departments we examined.

Legend:

- ◆ Significant improvements are needed
- △ Improvements are needed, but not to the same extent as red items
- ● We have not identified any significant weaknesses in the systems

Department	Systems to verify that expenses are in compliance with directives and policies	Systems to publicly disclose expenses and to support the new Treasury Board Committee oversight process	Good practices (described below)
Advanced Education	△	△	
Culture and Tourism	●	●	1
Education	●	●	1
Energy	●	●	1, 2
Executive Council	●	●	
Health	●	●	
Service Alberta	●	●	

GOOD PRACTICE—DOCUMENTED EXPLANATION OF EXPENSES

Several departments clearly describe and enter the business purpose of incurred expenses in the expense systems. This information is then printed on the claim form, which the expenditure officer approves.

GOOD PRACTICE—MONITORING AND REPORTING COMPLIANCE

The Department of Energy's finance area tests transactions to identify any deviations from internal controls or policies, takes corrective actions where needed and considers whether any process changes are required. The department's finance area tracks the results of its reviews and reports these results quarterly to senior management. They also use the results to update training material they present periodically to staff.

ADVANCED EDUCATION—RECOMMENDATION AND FINDINGS

Improve review of expenses

CONTEXT

Individuals claiming expenses are required to certify that they incurred expenses to support government business, and that the expenses were a reasonable use of public resources and complied with policies. They provide supporting documents and explanations for expenses. The individuals or support staff enter relevant information in the financial systems, code transactions to appropriate accounts and attribute expenses to individuals who are subject to the public disclosure directive. An expenditure officer then reviews and approves the payments.

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The department should have effective processes to verify that travel, meal and hospitality expenses comply with policies, are accurately coded in the financial systems, and include sufficient supporting documents with business rationales.

OUR AUDIT FINDINGS

KEY FINDING

The department's expense claim review processes did not identify several deviations from policy.

Staff in the minister's office and in the department's financial operations area review expense claims and procurement card forms for compliance with policies, adequate supporting documents and accurate processing.

However, these reviews did not correct the fact that transactions had:

- **insufficient documentation of business rationale**—the policy requires that claimants properly explain and document claims, and approvers must document their rationale when they use discretion to approve expenses. The claimant did not always clearly document the business rationale for expenses. We had to request additional information to understand the nature of the expenses. For example, there were several meal expenses without adequate business rationale documented, and contrary to policy a fuel purchase had been made on a procurement card.
- **no pre-approval for out-of-province travel**—the department was unable to provide us with the required pre-approvals for two out-of-province trips for the previous minister.
- **incorrect coding of expenses**—we found errors in the coding of transactions. The department paid for caucus-related costs when it should have allocated these costs to the Legislative Assembly Office. Further, an expense that should have been publicly disclosed was not, because it had been attributed to the wrong individual.

RECOMMENDATION 4: IMPROVE REVIEW OF TRAVEL, MEAL AND HOSPITALITY EXPENSES

We recommend that the Department of Advanced Education improve its review processes for travel, meal and hospitality expenses.

CONSEQUENCES OF NOT TAKING ACTION

If the department does not properly review expenses and seek clarification where needed, errors and non-compliance with policies could go undetected.

AUDITOR GENERAL
Alberta

Stand-alone Performance Auditing—Follow-up Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

May 2017

Environment and Parks—Alberta Climate Change Office—Follow-up Audit on Managing the Specified Gas Emitters Regulation—Alberta Emissions Offset Registry

INTRODUCTION

The *Specified Gas Emitters Regulation* requires Alberta's large industrial facilities[1] to limit their annual greenhouse gas emissions. If a facility exceeds its government-approved limit, it can compensate for the excess by purchasing emissions offset credits.[2] The revenue from the sales of offsets funds organizations that reduce their greenhouse gas emissions voluntarily, such as through renewable energy initiatives. Facilities can also compensate for excess emissions by purchasing emissions performance credits[3] or paying into a Climate Change and Emissions Management Fund.[4]

Emissions offsets are listed in the Alberta Emissions Offset Registry, where they can be bought and sold.[5] The Department of Environment and Parks, which administers the *Regulation*, has outsourced the operation of the registry to an external registry provider.

The department relies on the registry provider to check for duplicate offsets, which are invalid.[6] If a regulated facility uses an invalid offset to compensate for excess emissions, it must pay the department $20 for each excess tonne. However, the department will only receive that money if the invalid offset is detected. The registry provider failing to detect a duplicate offset could, therefore, cost the department revenue.

The department also relies on the registry provider to list and track the offsets in the registry, manage transactions and maintain data security. Errors in these areas can also lead to invalid offsets, potentially meaning further lost revenue to the department.

Since the department has outsourced this important element of its systems to manage the *Regulation*, it needs assurance that the registry provider has effective controls to fulfill its responsibilities and that the

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1 Large industrial facilities are facilities that emit 100,000 tonnes or more of carbon dioxide equivalent annually. Carbon dioxide equivalent is used to describe how much global warming a given type and amount of greenhouse gas may cause.

2 Offset credits are emissions reductions generated by facilities and sectors not subject to the *Specified Gas Emitters Regulation* that reduce their greenhouse gas emissions according to a government-approved protocol and that meet the requirements of Section 7 of the *Regulation*.

3 Emissions performance credits are reductions generated at regulated facilities that have reduced their emissions below their annual limit.

4 Facilities pay into the Climate Change and Emissions Management Fund at $20 per tonne of excess emissions. The monies are used to fund Alberta's efforts to reduce emissions and adapt to the effects of climate change.

5 Alberta Emissions Offset Registry, http://www.csaregistries.ca/albertacarbonregistries/home.cfm.

6 This check is specific to aggregated offset projects, a collection of small projects registered as a single project on the registry. The risk that these projects include duplicate locations or owners is higher than for non-aggregated projects.

data on the registry is credible and secure. In 2009 we found the department did not have this assurance. In addition, the department did not have a signed contract with the registry provider.

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine if management has implemented our 2009 recommendation to:

- obtain assurance that data hosted and processed by its registry provider is accurate, complete and secure
- formalize its relationship with the registry provider[7]

We conducted our field work between November 2016 and February 2017 and substantially completed our audit on February 14, 2017.

WHY THIS IS IMPORTANT TO ALBERTANS

Because the department lacks adequate assurance over whether the offset registry data is accurate, complete and secure, the offsets that regulated facilities use to comply with the *Regulation* could be invalid. Invalid offsets that go undetected can result in loss of revenue to the department and undermine the credibility of the systems to manage the *Regulation*.

WHAT WE EXAMINED

We examined the design, implementation and operating effectiveness of the department's controls to mitigate the risk that the registry data is not accurate, complete or secure. We interviewed the department's management and staff responsible for these functions. We also reviewed the department's contract with the registry provider.

CONCLUSION

Because of the significance of the key findings described below, we conclude that the Department of Environment and Parks has not implemented our recommendation to obtain assurance that the data processed and maintained by the registry provider is accurate, complete and secure.

FINDINGS AND RECOMMENDATIONS

Assurance that registry data is accurate, complete and secure—recommendation repeated

CONTEXT

For an organization using a third party to provide services, a standard process to obtain assurance that the third party is appropriately performing the required functions is through a service auditor's report.[8] The report provides reasonable assurance on the design, implementation and effectiveness of the third party's internal controls relevant to the organization's objectives.

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[7] *Report of the Auditor General of Alberta—October 2009*, page 49.

[8] The Canadian Standard for Assurance Engagements 3416 contains requirements for assurance engagements to report on controls at organizations that provide services to other entities. The associated report is commonly referred to as a service auditor's report.

In the case of the Alberta Emissions Offset Registry, the department relies on the external registry provider to:

- list offsets submitted by project developers
- track offsets using unique serial numbers
- review documents supporting offsets for completeness and adherence to the department's requirements
- process registry transactions
- ensure information is secure
- check annually that there are no duplicate offsets in the registry

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The department should have reliable, secure and effective administrative systems to support the *Specified Gas Emitters Regulation*.

OUR AUDIT FINDINGS

KEY FINDINGS

- The department still lacks adequate assurance that the registry data is accurate, complete and secure.
- The department signed a contract with the registry provider in 2014. Over two years later, the department has not enforced the contract requirement that would provide assurance over the data.

Although the department has been continually improving its systems supporting the *Regulation*, we consider the department's progress in implementing the recommendation too slow.

The department does not have information on whether the registry provider's general computer environment is sound. Specifically, the department does not know if the registry provider has effective controls to ensure:

- registry data is protected from unauthorized access, is secure and is properly backed up and stored
- only authorized changes are made to information systems

Further, the department lacks ongoing assurance that the registry provider's process to detect duplicate offsets is effective. While the department has verified that the registry provider's check for duplicate offsets was effective for the 2014 calendar year, it has not done any verification beyond 2014. To have ongoing assurance that the registry is free of duplicate offsets, the department needs to continue its verification or have an independent auditor report on the registry provider's processes.

Under the 2014 contract with the department, the registry provider is required to obtain an annual service auditor's report, which would give the department the assurance it currently lacks. The department has not yet enforced this requirement but they plan to get the necessary assurance by December 2017.

RECOMMENDATION 5: OBTAIN ASSURANCE ON THE REGISTRY PROVIDER'S DATA—REPEATED

We again recommend that the Department of Environment and Parks obtain assurance that data hosted and processed by its provider of registry services is accurate, complete and secure.

CONSEQUENCES OF NOT TAKING ACTION

Without assurance that the registry data is accurate, complete and secure, there is a risk that offsets in the Alberta Emissions Offset Registry are invalid and are going undetected. Undetected invalid offsets can result in lost revenue that the department could use to fund Alberta's efforts to reduce emissions, and undermine the credibility of the systems to manage the *Specified Gas Emitters Regulation*.

Indigenous Relations—Follow-up Audit on Systems to Assess First Nations Development Fund Grants

INTRODUCTION

The First Nations Development Fund is a lottery grant program available exclusively to First Nations in Alberta. It is supported by a portion of revenues from government-owned slot machines in Alberta First Nation casinos. From 2006 to 2016, the Department of Indigenous Relations allocated over $980 million in FNDF grants to support hundreds of social, economic and community development projects in Alberta's First Nation communities. A detailed breakdown is provided in Appendix A.

In 2013, we found inadequacies in three aspects of the FNDF program: communication of eligibility requirements, assessment of applications, and monitoring of recipients' compliance with grant agreements.[1] We recommended that the department improve its:

- communication of eligible uses of FNDF grant funds
- processes to review and approve grant applications by:
  - formalizing its processes to review complex[2] grant applications
  - obtaining sufficient information to support its assessment of grant applications
- processes for monitoring compliance with reporting requirements and its actions to correct non-compliance with grant agreements

The department has acknowledged that there are areas of misalignment between the requirements of the grant agreement and its current processes to assess FNDF grant applications and monitor compliance with the agreement. Over the 10 years since the agreements between First Nations and the department were signed, both the program and the department's relationships with First Nations participating in the program have evolved. The department has indicated it has attempted to respond to this evolution by providing greater autonomy to First Nations in managing FNDF funding allocations.

In our follow-up audit we assessed FNDF's processes against the requirements of the current grant agreement.

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine whether the Department of Indigenous Relations has made the necessary improvements to fully implement our recommendations.

We examined grant applications made for projects at the River Cree Resort and Casino because the original audit dealt primarily with one large complex application for River Cree, and we wanted to provide continuity in our testing. However, we also tested other complex grant applications to provide a thorough assessment of the state of the department's processes for assessing all complex applications.

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1 *Report of the Auditor General of Alberta—July 2013*, pages 17–28.

2 The department defines a complex grant application as one that proposes projects having the potential to include gaming-related activity, such as developments near existing casinos, or having principal and/or interest payments over $1 million.

We conducted our field work from October 2015 to October 2016. We substantially completed our audit on December 5, 2016.

WHY THIS IS IMPORTANT TO ALBERTANS

The FNDF is an opportunity to support good social, economic and community-based projects. It's important for Albertans to know that the program is operating as intended and funded projects provide value to First Nation communities.

WHAT WE EXAMINED

To perform the follow-up audit, we:

- interviewed management and staff to learn what actions they took to make the needed improvements to implement our recommendations
- examined the department's policies, processes and systems for its FNDF grant program
- tested the department's processes to communicate eligible uses of FNDF funds; to review and approve complex grant applications; and to monitor compliance with the grant agreement and actions taken to correct instances of non-compliance

CONCLUSION

We conclude that management has implemented one of our three recommendations: the department has improved its systems to communicate its interpretations of eligible uses of FNDF grant funds.

We have repeated two recommendations because the department is still unable to:

- demonstrate it has made sufficient improvements to its processes to assess and approve complex grant applications
- monitor for and correct non-compliance with the grant agreement

FINDINGS AND RECOMMENDATIONS

Improve review processes—recommendation repeated

CONTEXT

In 2013,[3] we found that the department had added processes to assess one complex application that had been submitted by Enoch Cree Nation in support of the River Cree Resort and Casino. We recommended that the department formalize those processes so that future complex grant applications would be subject to similarly rigorous review processes.

We also found that the department had approved some grant applications without doing sufficient analysis. For example, the department approved $18 million for capital improvements as part of the River Cree application, without information regarding the estimated costs or timing of the planned improvements. Without this information it would be difficult to assess if the capital improvements were properly described, reasonable and eligible for FNDF funding. We recommended that the department consistently obtain sufficient information to support its assessment of grant applications.

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The department should have systems and processes to review and approve grant applications.

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[3] *Report of the Auditor General of Alberta—July 2013*, no. 2, page 24.

OUR AUDIT FINDINGS

KEY FINDINGS

- The department formalized its processes to assess complex applications, but those processes do not give sufficient guidance on the use of professional advice for complex applications, and the department has not consistently sought this advice.
- The department approved some projects without having sufficient information to support its assessment against required criteria such as the reasonableness of project costs.

Use of professional advice to assess complex applications

The department formalized its processes to assess complex grant applications in its procedure manual by defining criteria to differentiate complex from regular applications. The department defines complex applications as those that propose projects having:

- the potential to include gaming-related activity, such as developments near existing casinos
- principal and/or interest payments over $1 million

Further, the formalized processes now require the department to obtain professional advice for complex applications. The professional advice obtained may be internal or external legal, accounting, financial or other professional advice depending on the nature and complexity of the application.

However, the procedure manual does not give sufficient guidance on the use of professional advice. It does not clarify how department staff should determine what type of advice to use, the extent of advice required or the extent to which the department may rely on the professional advice applicants have provided in support of their applications.

Because the guidance is insufficient, the department has not consistently sought professional advice when assessing complex applications. Of the complex applications we tested, the department sought professional advice on only two, and in one of those cases the advice came from the department's internal auditor. Reliance on the internal auditor's advice to assess applications may pose a risk to the auditor's independence, as the audit process includes assessing project applications for appropriate approval and the use of grant funds to complete the projects.

The department has recently developed further guidance for assessing complex applications. It has documented this guidance in its Complex Application Assessment Process, which it intends to incorporate into its procedure manual. The new process gives greater flexibility in identifying an application as "complex" and outlines a six-step process that will be followed and documented in application files. However, we were unable to test this new process, as the department had not approved any new complex applications since developing it.

Information to support project approvals

The department received and assessed a range of complex grant applications from First Nations, including capital expenditures for large construction projects, additional funding for previously approved capital projects, and projects to finance prior operating deficits. The department has processes to assess each application, and in the applications we tested we found that the department had obtained information to ensure the application was complete and the project properly described.

However, the department has not consistently obtained sufficient information to support its assessment of grant applications. Specifically:

- The grant agreement indicates that the department's review and approval processes include ensuring that rationale is provided for costs in excess of costs of a similar project. But the department's assessment does not consider the reasonability of project costs. Projects were approved with widely varying finance costs and construction costs with no indication of whether those costs were reasonable within the circumstances of each project.
- In the case of one significant application made to support a financing project, the department did not take project revenues into consideration when assessing the funding request, even though the project was a for-profit business. There was no documentation to explain the department's rationale for not including these revenues.
- Since our original audit, the department has received additional grant applications connected with the River Cree Resort. In each case, the department's assessment and approval did not consider the entity's ability to support the increasing financing costs.

RECOMMENDATION 6: IMPROVE REVIEW PROCESSES—REPEATED

We again recommend that the Department of Indigenous Relations improve its processes to review and approve grant applications by:

- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of complex grant applications

CONSEQUENCES OF NOT TAKING ACTION

Without sufficient analysis to support its granting decisions, the department cannot demonstrate how it approves applications according to the requirements of the FNDF program. As a result, it may award grants for funding uses that are inconsistent with the objective of the grant program.

Monitor for and correct non-compliance—recommendation repeated

CONTEXT

In 2013[4] we recommended that the department improve its processes to monitor First Nations for compliance with the reporting requirements of the grant agreement. The grant agreement requires all funding recipients to submit an approved financial report annually on June 30. Further, final reporting on a project is due within 90 days of completion.[5] Each recipient must report:

- revenues from all sources, including interest income
- costs and any donated labour, services, material and equipment received
- explanations of significant variance or delays

We found the department did not consistently monitor First Nations to ensure they complied with reporting requirements. First Nations had not submitted project reports in a timely manner, yet the department had not taken corrective action on late reporting. First Nations continued to receive funding despite being non-compliant.

The grant agreement requires the department to review the eligibility of expenses and compare actual expenses to the approved application. For submitted reports, we found that the department had not documented its analyses to compare actual to budget project costs or obtain explanations for variances.

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[4] *Report of the Auditor General of Alberta - July 2013*, no. 3, page 26.
[5] Grant agreement, Section 5.2 Reporting.

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The department should monitor and audit approved grant applications to ensure recipients comply with agreements.

OUR AUDIT FINDINGS

KEY FINDING

The department does not consistently follow its processes to:

- advise First Nations of overdue reporting
- enforce compliance with reporting requirements by withholding payments
- follow up on audit findings of non-compliance
- regularly visit each First Nation to discuss matters concerning FNDF and to observe the status of projects

Reporting

We examined a sample of open and closed projects to determine whether annual reporting was received on time. We found that First Nations continue to submit project reports late. Of the reports we examined, most were submitted late—on average approximately five months after the due date. Our findings are summarized below.

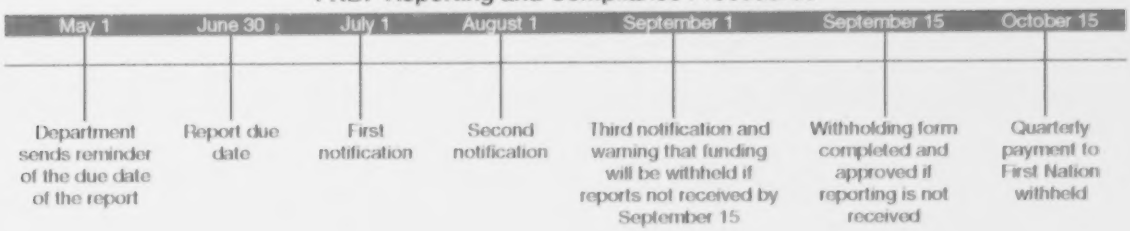
We found that, when reports were submitted, the department's liaison officers asked for explanations and documented their analysis when reporting indicated variances between actual and budget project costs. This process was improved from our original audit.

Enforcing compliance with reporting requirements

The department formalized a process to withhold payments from First Nations who do not comply with reporting requirements. It developed an Overdue Reporting Notification Procedure, which is included in its procedure manual. The procedure requires the department to provide several notifications to First Nations regarding reporting requirements, and to initiate a process to withhold payments if reporting is not received after three notifications.

These processes are summarized below:

FNDF Reporting and Compliance Procedures


May 1
June 30
July 1
August 1
September 1
September 15
October 15
Department sends reminder of the due date of the report
Report due date
First notification
Second notification
Third notification and warning that funding will be withheld if reports not received by September 15
Withholding form completed and approved if reporting is not received
Quarterly payment to First Nation withheld

The department has not consistently followed this process to enforce compliance. Notifications were not consistently sent on the schedule noted above. Some liaison officers advised us that they discuss late reporting with First Nations verbally, while others communicated by email. Of the written notifications we observed, fewer than half communicated the consequences for late reporting.

The department put three of 32 projects on payment hold because of late reporting. Although no payments were made to these projects during the duration of the hold, payments continued to be made to other projects for the recipients. The department's procedures indicate that all projects for the recipient should be placed on a payment hold, but liaison officers explained that they do not place all projects on hold because they consider this consequence too severe.

The department has recently increased its efforts to follow up on non-compliant reporting and has reduced the number of overdue reports. In June 2016 the department sent a letter to 12 First Nations to highlight their reporting obligations under the grant agreement. The letter provided a 60-day notice of suspension of further FNDF funds if reporting was not brought up to date.

The department is also considering changing its deadline for First Nations' annual reporting from June 30 to August 31. The current deadline is a month earlier than the federal government's deadline (July 29) for First Nations' audited consolidated financial statements.[6] The department feels it can better meet the needs of First Nations by moving its deadline, which is arbitrary, after the federal government's set deadline.

Follow-up on audit findings

The department's internal audit group audits each First Nation to ensure compliance with grant agreements and to confirm that grant funds were used for approved purposes. Two common findings arising from audits are a lack of compliance with the requirement to use a dedicated bank account to receive and expend FNDF funding, and a lack of compliance with reporting requirements.

Over the years there has been a lack of clarity between the liaison officers and the internal audit group around responsibility for following up on non-compliance. Recent efforts have been made to improve communication between the two groups to clarify the roles and responsibilities of each.

Site visits to First Nations

[6] The *First Nations Financial Transparency Act*, s.C. 2013, c.7, assented to 2013-03-27, is federal legislation that requires First Nations to present their audited consolidated financial statements within 120 days of their financial year-end (March 31), which is July 29 annually.

The department has identified site visits as an important means to maintain good relations with funding recipients, observe project status and follow up on outstanding project reporting or other matters. In addition to site visits, liaison officers provide ongoing support and may meet with First Nations off-site as well. Each liaison officer is allocated a portfolio of First Nations and is expected to visit each community at least twice each fiscal year.

We analyzed data on site visits made by liaison officers over the last three fiscal years. Some First Nations had no site visit during a year, while others had only one visit. Two First Nations communities were not visited at all during the three years. One of these First Nations has not provided its project reporting for the past five fiscal years. The department has subsequently visited both of these communities.

The table below summarizes our analysis.

Fiscal year	No visits	One visit	Two or more visits
2013–2014	9	12	25
2014–2015	20	15	11
2015–2016	11	16	19

Source: Information obtained from the department as at April 20, 2016

RECOMMENDATION 7: IMPROVE MONITORING PROCESSES—REPEATED

We again recommend that the Department of Indigenous Relations improve its monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with a grant agreement.

CONSEQUENCES OF NOT TAKING ACTION

Without ongoing monitoring to ensure grant recipients comply with grant agreements, the department may not be able to determine whether funds are used for the intended purposes and projects are managed effectively.

Formalize and communicate interpretation of eligible uses—recommendation implemented

CONTEXT

In 2013[7] we recommended that the department formalize and communicate its interpretation of eligible uses of funding. The FNDF grant agreement defines three categories of eligible uses: economic, social, and community development projects.[8] We found that the department had to exercise discretion to interpret whether project applications were eligible under these purposes, because the categories were too broad. Insufficient guidance was provided to applicants to clarify project eligibility.

OUR AUDIT FINDINGS

The department has formalized and communicated its interpretation of eligible uses of funds internally to its staff and externally to FNDF applicants by improving its internal and external processes.

Internal processes

In 2013 the department developed the FNDF Grant Program Procedure Manual to communicate to its staff its interpretation of eligible uses of FNDF grant funds. The manual describes project eligibility and reporting guidelines and describes acceptable projects that fall under the three broad categories. For example:

- projects that fall under economic development include capital investments in buildings, infrastructure, heavy equipment and vehicles
- operations of a profitable business are normally not eligible under economic use; however, certain costs—business feasibility studies and research, business start-up costs, business expansions, and initial and short-term seed funding for operations—would be considered eligible, as they are consistent with community development and growth
- eligible uses under the social development category include child and youth services such as daycare operating costs, as well as recreation, education, addictions, health and justice programs
- community development includes First Nations' administration and operating costs and community events

The department also developed a presentation it uses when training new staff and as a tool for its staff to communicate the requirements to potential grant applicants.

External processes

Liaison officers regularly communicate with First Nations to assist with any questions the First Nations may have in developing project applications. This communication takes place before a First Nation submits its project application to the department. First Nations are therefore made aware of the department's interpretation of eligible uses.

The department holds an annual workshop with First Nations to provide guidance on the technical, administrative and delivery aspects of the FNDF program. The workshops provide the department and First Nations with an opportunity to discuss eligibility of funds and other program-related concerns. We reviewed material from the 2014 and 2015 annual workshops and confirmed that the interpretation of eligible uses was discussed.

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[7] *Report of the Auditor General of Alberta—July 2013*, no. 1, page 23.
[8] Grant agreement, Section 2.1 Eligible Uses.

APPENDIX A: FIRST NATIONS DEVELOPMENT FUND PAID AMOUNTS

First Nations Development Fund Paid Amounts (in millions)

Treaty*	Fiscal 2006-2007	Fiscal 2007-2008	Fiscal 2008-2009	Fiscal 2009-2010	Fiscal 2010-2011	Fiscal 2011-2012	Fiscal 2012-2013	Fiscal 2013-2014	Fiscal 2014-2015	Fiscal 2015-2016	Total **
Treaty 6	$11.8	$38.8	$54.5	$56.0	$55.7	$63.0	$66.7	$68.7	$69.9	$68.5	**$553.7**
Treaty 7	$0.5	$10.9	$35.2	$36.4	$34.8	$36.3	$38.1	$37.6	$41.6	$40.4	**$311.9**
Treaty 8	$1.3	$6.7	$11.8	$12.4	$12.3	$13.5	$14.2	$14.9	$15.8	$15.4	**$118.3**
Total **	**$13.6**	**$56.4**	**$101.5**	**$104.8**	**$102.8**	**$112.8**	**$119.0**	**$121.2**	**$127.3**	**$124.3**	**$983.8**

* Appendix B lists the participating First Nations in Treaties 6, 7 and 8

** Differences are due to rounding

APPENDIX B: FIRST NATIONS COMMUNITIES IN ALBERTA

Participating First Nations Communities in Alberta

Treaty[9]	Member First Nations
Treaty 6	Alexander, Alexis, Beaver Lake, Cold Lake, Enoch Cree, Ermineskin, Frog Lake, Heart Lake, Kehewin, Louis Bull, Montana, O'Chiese, Paul, Saddle Lake, Samson Cree, Sunchild, Whitefish (Goodfish)
Treaty 7	Blood, Stoney (Chiniki, Wesley, Bearspaw), Piikani, Siksika, Tsuut'ina
Treaty 8	Athabasca Chipewyan, Beaver, Bigstone Cree, Chipewyan Prairie, Dene Tha', Driftpile, Duncan's, Fort MacKay, Fort McMurray #468, Horse Lake, Kapawen'o, Little Red River, Loon River, Lubicon Lake, Mikisew Cree, Peerless Trout, Sawridge, Smith's Landing, Sturgeon Lake, Sucker Creek, Swan River, Tallcree, Whitefish Lake, Woodland Cree

[9] Alberta First Nations are members of three treaty organizations: Confederacy of Treaty 6 First Nations, Treaty 7 Management Corporation, and Treaty 8 First Nations of Alberta.

Seniors and Housing—Follow-up Audit on Alberta Social Housing Corporation Contracting Policy

CONTEXT

Social housing, also called affordable housing, exists for people who are unable to access the private housing market because of financial, social or other circumstances. The Department of Seniors and Housing provides social housing through the Alberta Social Housing Corporation, a legal entity created by the department to hold the social housing portfolio. The ASHC owns or financially supports over 36,000 social housing units.

Social housing units are managed by management bodies, which run and maintain the units and also plan enhancements and extensions. Until 2011, if a management body wanted to repair a housing unit or carry out maintenance, it contracted the work directly and paid for it through a capital grant from the department. Since 2011, the department has stopped allowing housing management bodies to contract directly with vendors.

In our audit of the ASHC in 2011, we found that management bodies were not always managing contracts appropriately. We therefore recommended that the department develop a contracting policy for capital additions to its social housing portfolio and strengthen related contract management processes.

The objective of this follow-up audit was to determine whether the department had implemented our recommendation. We conducted our field work from June to October 2016 and substantially completed our audit on December 13, 2016.

WHAT WE FOUND

The department has implemented our 2011 recommendation[1] by putting in place a new contracting policy along with supporting procurement procedures.

CONTRACTING POLICY

Since our 2011 audit, the department has stopped allowing housing management bodies to contract directly with vendors. Now, if a management body identifies a need to build, expand or repair a social housing unit, the department must first review and approve that need. If it grants approval, the department itself will develop and issue a request for proposals, select a vendor and sign the contract with the vendor.

In January 2016, this practice was formalized when the department's contracting policy was approved. The Department of Seniors and Housing also initiated a contract review committee to review contracts over $75,000 and ensure the contracts meet all policy requirements before being approved. We tested

[1] *Report of the Auditor General of Alberta—November 2011*, no. 17, page 120.

contracts from the period of January 1, 2016 to August 10, 2016 and confirmed that the contracting policy was followed for the contracts in the sample.

PROCUREMENT PROCESSES

In 2013, the department adopted Service Alberta's processes for procurement. These processes identify when and how to request RFPs, as well as how to select vendors. The processes also define how to ensure that vendors meet contractual requirements and that funds are not paid out until those requirements are met. Our testing confirmed that the department followed these processes, monitored contracts for compliance, and released funds only when deadlines and other requirements were met.

Treasury Board and Finance—Follow-up Audit on Oversight of the Premier's and Ministers' Expenses

INTRODUCTION

When the premier and ministers incur expenses while travelling or hosting events as part of government business, they can claim expenses to cover their costs. In 2014[1] we assessed whether the then Premier and the Office of the Premier's employees complied with the Government of Alberta's travel, meal and hospitality expenses policy. We found that there was no formal oversight structure to monitor the office's travel expenses and use of government aircraft.

We recommended that Treasury Board improve oversight of the expenses of the premier's office and ministers' offices. We made our recommendation to Treasury Board because, in our opinion, it could best determine where responsibilities for providing oversight of the premier's and ministers' expenses should be placed. Oversight means exercising vigilance, checking that processes and systems, including the accountability for results system, are working well, and signalling preferred behaviour, in the pursuit of desired results.

In 2015–2016, the premier and ministers incurred $180,000 of travel, meal and hospitality expenses.

As part of our audit in 2014, the premier asked us to review the Government of Alberta's September 2012 travel, meal and hospitality expenses policy. We provided advice on the policy, and in November 2015, Treasury Board approved a revised policy that incorporated elements of our advice.

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine whether Treasury Board has established an oversight process to monitor the premier's and ministers' expenses.

Our objective was not to determine whether ministers and the premier complied with the travel, meal and hospitality expenses policy, because we will examine the expenses for ministers and their staff on a recurring basis as part of a separate audit.

WHY THIS IS IMPORTANT TO ALBERTANS

The public expects that ministers use public money responsibly when claiming expenses. Effective oversight helps ensure that expenses are reasonable.

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[1] *Report of the Auditor General of Alberta—August 2014*, no. 1, page 19.

WHAT WE EXAMINED

We conducted our field work in November and December 2016, and substantially completed our audit on January 23, 2017.

To perform the audit, we:

- obtained an understanding of the new oversight process and examined evidence of it
- examined the summary expense report that the Department of Treasury Board and Finance submitted to Treasury Board
- obtained evidence that the department presented the summary expense report to Treasury Board
- tested the accuracy of the compilation of expense data in the summary expense report

CONCLUSION

Treasury Board has implemented our recommendation by establishing an oversight process to monitor the travel, meal and hospitality expenses of the premier and ministers.

FINDINGS

In December 2016, the department presented its first summary expense report to Treasury Board, covering expenses for the year ended March 31, 2016. Treasury Board requested quarterly reporting going forward. The committee reviewed the department's summary expense report, which included information on expense trends compared with the prior fiscal year, expenses by minister, types of expenses, and reporting of instances where discretion allowable under the policy was applied. Reporting included whether there was a documented rationale when discretion under the policy was used.

Other Audit Work

REPORT OF THE AUDITOR GENERAL OF ALBERTA

May 2017

Advanced Education—Post-secondary Institutions Report Card

INTERNAL CONTROLS—A REPORT CARD

This report includes an update on the report card on internal controls over financial reporting, together with comparative assessments from our 2014 and 2015 audits of colleges, technical institutes, MacEwan University and Mount Royal University. Our October 2016 report included the results of our audits at Athabasca University, the University of Alberta, the University of Calgary and the University of Lethbridge.[1]

To govern effectively, a board of governors needs management to provide accurate and timely financial information throughout the year. Strong, sustainable processes improve management's decision making ability and provide opportunities to use results analysis to communicate to Albertans the institution's performance and accountability for results. The Minister of Advanced Education, through the department, must ensure the boards of governors of post-secondary institutions hold management accountable for sustaining strong internal control environments and improving identified control weaknesses in a reasonable period of time.

Consistent with our prior report cards, we evaluated the following key indicators of effective financial processes and internal controls:

- the time it took institutions to prepare complete and accurate year-end financial statements
- the quality of draft financial statements we received, including the number of errors our audit found
- the number and type of current and outstanding recommendations

A post-secondary institution could have a yellow or red status yet still receive an unqualified audit opinion on its financial statements, as management can correct errors and financial statement disclosure deficiencies during the audit process. The number of errors and disclosure deficiencies we find in the draft financial statements indicates how effective the institution's financial controls are for preparing accurate financial statements. We occasionally make observations to management at the end of our financial statement audit of less significant control weaknesses that do not require immediate remediation like recommendations do. We would note a caution in the report card, however, if numerous observations are identified at a particular institution. Numerous observations would be a strong indication the institution's overall financial processes and internal controls may not be adequate.

Our conclusion on the status of outstanding recommendations considers not just the number, but also the age and nature of the outstanding recommendations. A summary of outstanding recommendations by institution is given on page 90. Six of the nine outstanding recommendations to institutions are older than three years. We repeated to three institutions our 2013[2] recommendation to improve systems to ensure compliance with legislation.

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1 *Report of the Auditor General of Alberta—October 2016*, pages 61–71.

2 *Report of the Auditor General of Alberta—February 2013*, no. 7, page 60. Individual institutions received the recommendation between February 2013 and February 2014. All institutions worked collaboratively to implement centralized process improvements to facilitate implementation of the recommendation within three years. All, except four institutions, have fully implemented the recommendation. We repeat the recommendation to three institutions: Northern Lakes College, Olds College and Portage College. We have not followed up with one institution (Keyano College), because the institution's operation was affected by the 2016 wildfires in Fort McMurray.

Effective control environments include clear policies, well-designed processes and controls to implement and monitor compliance with policies, and secure information systems. Such control environments help provide timely and accurate financial and non-financial information to manage and govern the institutions. Recommendations not implemented promptly erode the effectiveness of the institution's control environment. A weak control environment impacts the quality of decision making by management and the board of governors. As a result, an institution may not achieve its goal to operate cost-effectively and manage operating risks.

The report card

- ◆ Significant improvement is required.
- △ Improvement is required, but not to the same extent as the red items. Yellow items may or may not be associated with a management letter recommendation. They represent areas where an institution can improve, as opposed to areas that require significant, immediate attention.
- ● We have not identified significant weaknesses in the control environment.

Institutions where improvements are needed

Institution	Financial Statements Preparation		Outstanding Recommendations
	Accuracy	Timeliness	
Keyano College			
2016	◆	N/A[3]	◆
2015	◆	△	◆
2014	●	●	●
Northern Lakes College			
2016	△	●	◆
2015	△	●	●
2014	◆	●	◆
Portage College			
2016	△	●	◆
2015	●	●	●
2014	●	●	△
Lakeland College			
2016	●	●	◆
2015	●	●	●
2014	△	●	●
Olds College			
2016	●	●	◆
2015	△	●	●
2014	◆	◆	◆
Alberta College of Art + Design			
2016	△	●	●
2015	●	●	●
2014	●	●	△

[3] Management could not meet the expected timeline because the institution's operations were affected by the Fort McMurray wildfire.

Institutions with adequate internal controls and processes over financial reporting

Institution	Financial Statements Preparation		Outstanding Recommendations
	Accuracy	Timeliness	
Bow Valley College			
2016	●	●	●
2015	●	●	●
2014	●	●	●
Grande Prairie Regional College			
2016	●	●	●
2015	●	●	●
2014	●	●	●
Lethbridge College			
2016	●	●	●
2015	●	●	●
2014	●	●	●
MacEwan University			
2016	●	●	●
2015	●	●	●
2014	●	●	●
Medicine Hat College			
2016	●	●	●
2015	●	●	●
2014	●	●	●
Mount Royal University			
2016	●	●	●
2015	●	●	●
2014	●	●	●
Northern Alberta Institute of Technology			
2016	●	●	●
2015	●	●	●
2014	●	●	●
NorQuest College			
2016	●	●	●
2015	●	●	●
2014	●	●	●
Red Deer College			
2016	●	●	●
2015	●	●	◆
2014	●	●	●
Southern Alberta Institute of Technology			
2016	●	●	●
2015	●	●	●
2014	●	●	●

In concluding on our report card, we noted the following:

Financial statements preparation

Most institutions have sustainable internal controls and processes to promptly prepare reliable financial statements. Having more reliable data allows institutions to report better results analysis of their performance from measurable targets. Management of institutions should continue to make process improvements to ensure the sustainability of their reporting controls and processes, particularly in areas of continually evolving risk such as information technology security and effective use of data.

We identified errors and disclosure deficiencies in the draft financial statements of the Alberta College of Art + Design, Keyano College, Northern Lakes College and Portage College during our audits. These differences indicate the institutions are unable to maintain, from year to year, the required level of internal controls and processes to prepare financial information. We encourage the board of governors of each of these institutions to oversee management's continued improvement of these processes.

Our audit of NorQuest College included examination of amounts recovered from an alleged fraud that occurred in fiscal 2008 to 2012. Since fiscal 2013, the college has implemented internal controls and processes that have adequately mitigated the risk of fraud going undetected. We conclude that the presentation and disclosure in the college's fiscal 2016 financial statements and disclosures made in its 2016 annual report are accurate and consistent with the information we obtained during our audit.

We issued unqualified audit opinions on the financial statements of all post-secondary institutions in 2016 (we issued unqualified audit opinions on four universities as reported in our October 2016 report).

Outstanding recommendations

Six more institutions implemented our recommendation to improve systems to ensure compliance with legislation. Management of Northern Lakes College, Olds College and Portage College have not yet completed their implementation of all necessary processes to allow them to assert to their board of governors that their institutions are compliant with all applicable legislation. We repeat our recommendation to all three institutions. Management of Keyano College also did not complete the implementation of all necessary processes because of disruptions caused by the Fort McMurray wildfire.

We found Lakeland College management has not fully implemented our recommendation to improve segregation of duties in its finance department (see page 87). We repeat our recommendation and encourage both the board of governors and management to prioritize improvements to process weaknesses.

Red Deer College implemented one other recommendation during the year. Fourteen institutions had no outstanding recommendations at the end of fiscal 2016.

FINDINGS

SUMMARY

We issued no new recommendations to post-secondary institutions. We repeated recommendations to Lakeland College (1), Northern Lakes College (1), Olds College (1) and Portage College (1).

Seven prior-year recommendations were implemented: Alberta College of Art + Design (1), Bow Valley College (1), Lakeland College (1), Lethbridge College (1), Medicine Hat College (1) and Red Deer College (2).

MULTI-INSTITUTION RECOMMENDATION

Matters from prior audit

Improve systems to ensure compliance with legislation

CONTEXT

Starting in 2013, we made a recommendation to all post-secondary institutions[4] to improve systems to comply with legislation by implementing systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and board audit committees

The post-secondary institutions worked collaboratively to implement the recommendation in two phases. Initially, in 2014, the institutions implemented a sector-wide initiative to engage an external legal firm to identify existing and recently changed or newly enacted legislation impacting post-secondary institutions. In the second phase of implementation, each institution used information obtained collaboratively to integrate compliance with legislation within their risk management systems and processes.

We previously reported that 10 institutions had implemented our recommendation.[5] In 2016, we examined process improvements implemented at a further nine institutions: Alberta College of Art + Design, Bow Valley College, Lakeland College, Lethbridge College, Medicine Hat College, Northern Lakes College, Olds College, Portage College and Red Deer College.[6]

Our follow-up audit at each of these institutions included examining:

- the legislative compliance framework outlining management's processes to identify legislation that the institution must comply with
- management's process for monitoring to ensure compliance
- instances of non-compliance, along with corresponding mitigation plans
- reporting to the board audit committee

Recommendation implemented—Alberta College of Art + Design, Bow Valley College, Lakeland College, Lethbridge College, Medicine Hat College and Red Deer College

We found management of each institution reported on legislative compliance at least once a year to their board and executive committees. The compliance report included instances of non-compliance along with corresponding mitigation plans. Significant legislative compliance risks were included in each institution's enterprise risk management assessment, and some institutions prepared separate legislation risk registers. The legislative compliance assessments were completed by either management or a special management committee. At each institution, we did not identify any significant legislation related to financial reporting for the fiscal 2016 financial statements that management failed to consider in its reporting.

We conclude that the six institutions mentioned above have implemented processes to ensure compliance with legislation and that these processes are operating effectively.

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4 *Report of the Auditor General of Alberta—February 2013*, no. 7, page 60, *October 2013*, page 94, *February 2014*, page 75.

5 University of Alberta: *Report of the Auditor General of Alberta—October 2015*, page 127. Grande Prairie Regional College, MacEwan University, Mount Royal University, NorQuest College, Northern Alberta Institute of Technology and Southern Alberta Institute of Technology: *Report of the Auditor General of Alberta—February 2016*, page 99. Athabasca University, University of Calgary and University of Lethbridge: *Report of the Auditor General of Alberta—October 2016*, page 64.

6 We have not yet followed up on the recommendation to Keyano College, because the college's operations were significantly impacted by the Fort McMurray wildfire that occurred in May 2016.

Recommendation repeated—Northern Lakes College, Olds College and Portage College
We repeat our recommendation to these three institutions, because in each case management has been unable to fully implement processes to assure the institution's board of governors that the institution complies with all applicable legislation.

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The colleges should have effective systems to:

- understand what legislation is applicable
- develop appropriate policies, procedures and controls to ensure the institution complies with legislation
- monitor compliance and report non-compliance to senior management and board audit committees

OUR AUDIT FINDINGS

KEY FINDING

Management at Northern Lakes, Olds College and Portage College have not implemented all necessary processes required to ensure their institution complies with legislation.

Management of Northern Lakes College and Portage College designed legislative compliance frameworks and prepared legislative compliance guidelines and procedures that their respective executive committees approved. Management of Olds College also implemented processes to identify legislation it must comply with and developed a legislation register that assigned legislation to specific owners.

However, we found these colleges still have not done all of the following:

- ensured that functional units carry out their assigned roles and responsibilities
- completely developed legislative compliance guidelines and procedures, or demonstrated they consistently follow these guidelines and procedures
- regularly updated the list of legislation applicable to them
- regularly monitored compliance with legislation and remediated non-compliance, if any
- reported to senior management and the board of governors on instances of non-compliance and remediation, if any

RECOMMENDATION 8: IMPROVE SYSTEMS TO ENSURE COMPLIANCE WITH LEGISLATION—REPEATED

We again recommend that Northern Lakes College, Olds College and Portage College implement systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and the board audit committee

CONSEQUENCES OF NOT TAKING ACTION

Without a clear process to ensure they comply with legislation, the colleges face significant financial, operational, legal and reputational risks.

ALBERTA COLLEGE OF ART + DESIGN

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

BOW VALLEY COLLEGE

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

LAKELAND COLLEGE

Matters from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

Improve segregation of duties within the finance department—recommendation repeated

CONTEXT

Segregation of duties is a type of internal control intended to prevent fraud. Certain combinations of tasks, if given to a single individual, could allow that individual to commit fraud, such as when the same person is allowed to both approve and issue payments. The aim of segregation of duties is to ensure that such tasks are distributed among more than one person.

In 2016[1] we recommended that Lakeland College improve segregation of duties within the finance department to ensure that:

- those involved in preparing financial information are segregated from IT administration rights. In the absence of complete segregation, sufficient mitigating controls should be in place and followed
- IT administrator actions are monitored throughout the year
- journal entries are always reviewed before being entered into the financial system

We repeat the recommendation because the college has not completed its design and implementation of the monitoring of IT administrator actions.

CRITERIA: THE STANDARDS OF PERFORMANCE AND CONTROL

The college should ensure that:

- individuals responsible for oversight of financial reporting are not involved in the preparation of the financial statements or daily financial processes
- IT administration rights are segregated from those involved in the preparation of financial information. In the absence of complete segregation, sufficient mitigating controls should be in place and followed
- IT administration actions are monitored throughout the year

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[1] *Report of the Auditor General of Alberta—February 2016*, no. 14, page 103.

OUR AUDIT FINDINGS

KEY FINDING

The college has not implemented adequate processes to segregate duties related to IT administrator rights within the finance department.

Management has improved controls over segregation of duties in the finance department. However, control over the IT administration rights of finance staff needs further improvement.

In the prior year, most individuals in the finance department were able to create and post journal entries. The college has since imposed a restriction so that only one individual may create and post journal entries. Management monitors this individual's activities regularly.

Two individuals within the finance department have administration rights, allowing them to perform many functions in the accounting system, including creating, editing and deleting user accounts. Management is monitoring administrator activities performed by these users. However, additional preventive or detective controls are necessary to adequately mitigate the risk. Additional controls to consider include completely segregating the administrator rights from the finance department, further restricting administrator access privileges, or additional monitoring of transactions processed by administrators.

RECOMMENDATION 9: IMPROVE SEGREGATION OF DUTIES—REPEATED

We again recommend that Lakeland College improve segregation of duties within the finance department.

CONSEQUENCES OF NOT TAKING ACTION

Without appropriate segregation of key financial reporting duties, there will be a greater risk of undetected fraud, error and inappropriate transactions occurring at the college.

LETHBRIDGE COLLEGE

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

MEDICINE HAT COLLEGE

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

NORTHERN LAKES COLLEGE

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation repeated—see multi-institutional recommendation

OLDS COLLEGE

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation repeated—see multi-institutional recommendation

PORTAGE COLLEGE

Matter from prior audit

Improve systems to ensure compliance with legislation—recommendation repeated—see multi-institutional recommendation

RED DEER COLLEGE

Matters from prior audit

Improve systems to ensure compliance with legislation—recommendation implemented—see multi-institutional recommendation

Improve general computer control environment—recommendation implemented

OUR AUDIT FINDINGS

The college has implemented our 2013 recommendation, repeated in 2016,[8] to improve its general computer control environment. College management developed policies and implemented processes and controls over its information technology environment by:

- finalizing an IT risk management standard that specifies procedures as well as roles and responsibilities
- implementing an IT oversight committee, which provides governance over risks, controls and IT implementations
- updating its risk register and IT standards regularly
- performing a quarterly review of IT risks, including mitigation activities, and reporting them to the IT oversight committee
- controlling and managing changes to IT systems and applications by implementing a change management framework
- updating and testing its disaster recovery plan

We examined the college's policies, standards and procedures and tested their operating effectiveness. We conclude that the college's risk assessment process, management of changes to systems, and testing of its disaster recovery plan are operating effectively.

[8] *Report of the Auditor General of Alberta—October 2013*, no. 32, page 100 (repeated February 2016, no. 16, page 108).

OUTSTANDING RECOMMENDATIONS

Institution	Outstanding Recommendations 3+ Years*	Other	Total
Alberta College of Art + Design	-	-	-
Athabasca University	2	-	2
Bow Valley College	-	-	-
Grande Prairie Regional College	-	-	-
Keyano College**	1	1	2
Lakeland College	-	1	1
Lethbridge College	-	-	-
MacEwan University	-	-	-
Medicine Hat College	-	-	-
Mount Royal University	-	-	-
NorQuest College	-	-	-
Northern Alberta Institute of Technology	-	-	-
Northern Lakes College	1	-	1
Olds College	1	1	2
Portage College	1	-	1
Red Deer College	-	-	-
Southern Alberta Institute of Technology	-	-	-
University of Alberta	-	-	-
University of Calgary	-	-	-
University of Lethbridge	-	-	-
Total outstanding	**6**	**3**	**9**
Ready for follow-up audit***	3	0	
Not yet ready for audit	3	3	

* Originally issued in February 2014 report or earlier

** Outstanding recommendation to improve financial reporting processes

*** Based on management representations to April 25, 2017

The following is a detailed list of outstanding recommendations to public post-secondary institutions. The list does not include Athabasca University, the University of Alberta, the University of Calgary, the University of Lethbridge or the Department of Advanced Education, which were included in our October 2016 report.

KEYANO COLLEGE

The following recommendations are outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—February 2013, no. 7, p. 60
We recommend that the post-secondary institutions[9] implement systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and board audit committees

Improve financial reporting processes—February 2016, no. 13, p. 102
We recommend that Keyano College improve its financial reporting by:

- training staff on Canadian Public Sector Accounting Standards
- improving its monitoring and reviewing processes to ensure accurate financial information

LAKELAND COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve segregation of duties—May 2017, no. 9, p. 88 (originally February 2016, no. 14, p. 103)
We recommend that Lakeland College improve segregation of duties within the finance department.

NORTHERN LAKES COLLEGE

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation—May 2017, no. 8, p. 86 (originally February 2013, no. 7, p. 60)
We again recommend that Northern Lakes College, Olds College and Portage College implement systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and the board audit committee

OLDS COLLEGE

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation—May 2017, no. 8, p. 86 (originally February 2013, no. 7, p. 60)
We again recommend that Northern Lakes College, Olds College and Portage College implement systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and the board audit committee

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve access controls to information systems—February 2016, no. 15, p. 105
We recommend that Olds College strengthen its information systems access controls, to ensure it:

- promptly removes system access privileges when staff or contractors leave the college
- discontinues the practice of leaving accounts open for email access after staff are terminated

[9] As a result of our assessment, we made this common recommendation to all colleges and universities as part of our original audit in February 2013, and then followed up in October 2013, February 2014, February 2016 and May 2017. This recommendation is being repeated to Northern Lakes, Olds College and Portage College in this report.

PORTAGE COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—May 2017, no. 8, p. 86
(originally February 2013, no. 7, p. 60)

We again recommend that Northern Lakes College, Olds College and Portage College implement systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and the board audit committee

Justice and Solicitor General—Progress Report on Control Systems at the Office of the Public Guardian and Trustee

INTRODUCTION

A trustee is someone who has a legal duty to manage another person's property and money—the person's "trust." The duties and responsibilities of a trustee are significant. A trustee must act with care, with integrity and in the best interest of the person whose trust they hold.

Alberta's Public Trustee can be appointed[1] to take on a person's trust when they are unable to manage their financial matters themselves, and no one else in the person's life is able or willing to act as trustee. The Public Trustee manages the financial interests for some of the most vulnerable people in Alberta. It holds trusts for represented adults,[2] minors and the deceased.[3] The Public Trustee is responsible for more than 16,000 trusts, totalling $638 million.[4]

Because of a recent government reorganization, the Office of the Public Guardian and Trustee now reports to the Ministry of Justice and Solicitor General.[5] The Public Trustee reports to the Assistant Deputy Minister of Justice Services Division and manages the approximately 150 staff who administer clients' trusts.

SUMMARY OF OUR PREVIOUS WORK

We have completed two performance audits at the OPGT in recent years. In February 2016, we reported on the OPGT's broader controls around its business processes. Specifically we found that the Public Trustee did not have adequate systems to manage surplus funds, or to support reporting on its operations. The recommendations from that audit are outstanding but are not the subject of this progress report. Here we instead focus on the management of individual client trust funds from our February 2013 audit report.

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1 The Public Trustee may be appointed by the Court of Queen's Bench or as various pieces of legislation direct, including the *Adult Guardianship and Trusteeship Act*, *Wills and Succession Act*, *Administration of Estates Act* and *Minor's Property Act*.

2 A "represented adult" is an adult who has a trustee appointed by the court after the court is satisfied that the adult does not have the capacity to make decisions respecting any or all financial matters and for whom less restrictive measures would not protect the adult's interest in financial matters.

3 A "deceased estate" is an estate of a deceased person who has a minor, represented adult or other vulnerable Albertan interested in the estate. The Public Trustee may administer these estates.

4 The figure 16,000 is according to July 2016 case count reporting from the Public Trustee Information System; $638 million is as reported in the OPGT's financial statements at March 31, 2016.

5 In January 2017 the Office of the Public Guardian and Trustee was placed under the responsibility of the Minister of Justice and Solicitor General following Order in Council 18/2017. Until January 19, 2017, the Office of the Public Guardian and Trustee was under the responsibility of the Minister of Human Services.

In 2011 and 2012, we investigated an alleged fraud at the Office of the Public Guardian and Trustee.[6] A former employee of the office took advantage of weak safeguards and defrauded a deceased Albertan's estate. The Office of the Public Guardian and Trustee subsequently repaid the real beneficiary $330,000.[7] Our investigation did not find any other cases of fraud.

We also did an audit of how the Office of the Public Guardian and Trustee manages and protects clients' trusts. In our audit we found instances where weak processes put vulnerable Albertans at risk. For example, we saw a trust that had gone unchecked for 45 years. We found instances where Public Trustee management and staff did not follow policy. We also saw payments from trust accounts made without enough information to support or justify the payments.

We reported the results of our audit in February 2013.[8] We found that processes to protect clients' trusts were not working as they needed to. We also found an environment that did not support the care, integrity and focus on clients' best interests that a trustee needs to have in order to do their job. We concluded that vulnerable Albertans who rely on the Public Trustee were at risk of their trusts being misused or mismanaged.

We made five recommendations to the Office of the Public Guardian and Trustee—see Appendix A. Our recommendations, which covered a broad range of processes, all focused on improving and supporting effective trust administration practices.

OBJECTIVE OF THIS PROGRESS REPORT

We reported the results of our original audit four years ago. Management has not been able to implement all of our recommendations. As a result, we are not able to conduct a follow-up audit at this time.

We use a progress report to understand what management has done to date and its plans going forward. We also use a progress report to make observations to management. These observations help us to make sure management can fix the problems we initially found.

A progress report is not an audit. We do not perform detailed audit procedures in a progress report. Instead, we base our assessment on interviews, analytical procedures and a review of management's documents. Therefore, in a progress report we do not provide audit-level assurance on our conclusions as we typically provide in our audit and follow-up audit reports.

We conducted our field work between August 2016 and January 2017. We substantially completed our work on March 9, 2017.

OBSERVATIONS ON PROGRESS

We expected that after four years management would be able to demonstrate it has an effective system of internal controls to manage clients' trusts. The system we expected to see is not yet in place. Progress has been slow because management has been trying to build new processes at the same time as it attempts to sort out many of the core problems we identified in our 2013 report.

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[6] In April 2014 the Ministry of Human Services merged the Office of the Public Trustee with the Office of the Public Guardian to form the Office of the Public Guardian and Trustee.

[7] The $330,000 repaid is the original amount defrauded plus interest. The original amount was $122,000.

[8] *Report of the Auditor General of Alberta—February 2013*, pages 33–50.

MANAGEMENT'S ASSESSMENT

We asked management to give us a summary of what it has done to date and its plans going forward. The deputy minister of Human Services sent us management's summary in October 2016. Management's reporting indicates it will have all five recommendations fully implemented by March 31, 2018.

OUR ASSESSMENT

In four years, management has worked on a number of activities. We observed progress on some of our recommendations, including the design of:

- a new process to update policies and procedures
- new controls to strengthen payment processes
- a new file structure

These are important steps, but critical deficiencies remain in the OPGT's management of clients' trust funds. We have concerns with the OPGT's latest supervisory review process, the culmination of several iterations. OPGT management continues to work on this process and continues to be challenged by the high number of errors occurring in the administration of clients' trusts.

Another area of significant concern is the OPGT's internal audit function. We recommended in 2013 that it be strengthened, since it was performing operational work rather than audit work and it reported to OPGT management rather than Human Services. The internal audit staff were moved into Human Services Corporate Internal Audit, where they completed one risk-based audit of the OPGT and began work on several others. However, since then these internal audit staff have returned to exclusively performing operational work for the OPGT. Consequently, the OPGT effectively has no internal audit function.

KEY FINDING

Efforts to date have failed to make needed changes to trust administration, and plans going forward lack the rigour needed to ensure success.

In Appendix B, we give a fuller account of our observations and our assessment of management's assertions.

Management's plans for completing the fixes to its processes do not have the rigour they need to ensure success. We observed that current plans and unsuccessful ones from the past had in common a lack of basic project management approaches, such as:

- clear objectives
- clear definitions of who is responsible for what
- gatekeeping[9]
- monitoring and reporting processes
- use of a results management framework[10]

Without focus and expertise, the solutions can get lost in competing priorities. Management needs project management expertise to help it fix the problems we identified.

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[9] "Gatekeeping" refers to the practice in project management of stopping at defined, periodic check-points to ensure that past steps have worked and making any needed changes before providing authorization to proceed.

[10] We define a results management framework in our audit of Treasury Board and Finance—Results Analysis Reporting, Appendix: Results Management and Analysis Reference Guide, *Report of the Auditor General of Alberta—July 2014*, pages 24–33.

DEPARTMENT OVERSIGHT

It is not the department's job to fix the identified problems. However, it is the department's job to ensure that the OPGT's management fixes them. Given the significance of the problems we identified in 2013, and the limited progress to date, it seems clear to us that the department has not provided consistent oversight.

When we released our report in February 2013, the Ministry of Human Services published an action plan and committed to quarterly public reporting for one year. The associate minister at the time took direct responsibility for overseeing the plan to fix the problems we identified.

The department published quarterly reports for one year. Since that time, plans have changed noticeably from those originally published, delays have occurred, and timelines have continually been missed or pushed back. While OPGT management and the department continued to meet to discuss progress on the recommendations, the department has not provided additional reporting to help the public understand the delays.

Furthermore, the inconsistent oversight is likely due, at least in part, to the instability in leadership the OPGT has experienced over the past four years.

The former Public Trustee's appointment was rescinded in March 2013. An Acting Public Trustee was in place until October 2015, when the current Public Trustee was appointed. She was appointed to a one-year term, followed by an eight-month extension that extends to June 2017.

During these same four years, the OPGT has reported to five different ministers, two associate ministers, three deputy ministers and eight assistant deputy ministers.

In February 2013, we reported on a public trusteeship system that had significant problems. It is now 2017 and many of the problems of 2013 still exist. The OPGT's management must make changes and the department must ensure these changes happen—vulnerable Albertans depend on it.

APPENDIX A: FEBRUARY 2013 RECOMMENDATIONS

RECOMMENDATION 2: SUPERVISORY REVIEW OF CLIENT FILES

We recommend that the Office of the Public Guardian and Trustee improve its file management processes to ensure that all client files are subject to adequate supervisory review.

RECOMMENDATION 3: INTERNAL AUDIT ROLE

We recommend that the Office of the Public Guardian and Trustee strengthen the role of its internal audit, ensuring it has adequate authority and independence to effectively perform its function.

RECOMMENDATION 4: IMPROVE AND FOLLOW POLICIES

We recommend that the Office of the Public Guardian and Trustee:

- review and assess whether its polices are appropriate, and procedures are adequate to mitigate the risk that client assets could be misappropriated or otherwise mismanaged
- improve its processes for ensuring compliance with policies and procedures

RECOMMENDATION 5: SEGREGATION OF DUTIES

We recommend that the Office of the Public Guardian and Trustee strengthen its processes for the approval and payment of client expenses and disbursements.

RECOMMENDATION 6: DOCUMENTATION

We recommend that the Office of the Public Guardian and Trustee improve its processes for ensuring client files are appropriately documented, including adequate documentation of supervisory review and internal audit.

APPENDIX B: SUMMARY OF PROGRESS

SUMMARY OF STATUS

OPGT & OAG Assessments

Recommendation	OPGT Assessment	OAG Assessment
2.[11] Supervisory review of client files	△	◆
3. Internal audit role	●	◆
4. Improve and follow policies	△	△
5. Segregation of duties	●	●
6. Documentation	△	△

Legend

● Good progress observed

△ Limited progress observed

◆ Unsatisfactory progress observed

Recommendation 2: Supervisory file review

Management's assessment: △ Not implemented[12]

OAG assessment: ◆ Unsatisfactory progress

Rationale for our assessment:

In February 2013, we recommended that management develop a process to regularly review files in order to respond to key risks we had identified. For example:

- files lay dormant and were not routinely opened by case workers
- supervisory activities did not result in improvements to client files or to the overall administration of files
- there were widespread instances of non-compliance with policies—staff made payments from clients' trust funds without proper approval or without sufficient support to confirm the funds were used for the intended purpose and were in the best interest of the client
- minors' trust files were not subjected to the level of scrutiny seen in other file types or based on risk

Management has made significant efforts to develop a sustainable, comprehensive review process that will become part of its ongoing client service processes. The OPGT's supervisory review process is now in its third iteration, after Human Services Corporate Internal Audit expressed concern over the first two iterations. OPGT management continues to work on this process and continues to be challenged by the high number of errors occurring in the administration of clients' trusts.

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[11] In our *February 2013 Report*, the Control Systems at the Office of the Public Trustee was the second chapter, so the numbering of the recommendations began as Recommendation 2 and continued through to Recommendation 6 (5 in total). We have maintained that numbering here for consistency.

[12] OPGT management asserted each recommendation as either "implemented" or "not implemented." We confirmed with management that these assertions would align with our criteria for "good progress observed" and "limited progress observed" respectively.

Operational changes that came out of the first iteration of the review process do not appear to have improved staff's compliance with file-handling procedures: the latest round of reviews has identified errors in a large majority of the files reviewed. Further, the new risk-based file review strategy seeks to review 11,000 trust files.[13] We are concerned that this task may take years to complete.

The OPGT is only now beginning to integrate reporting into the supervisory review process. While the OPGT did some reporting after the first iteration of the review process, the absence of ongoing reporting throughout was likely a key contributing factor in the process's slow progress to date. Once fully in place, reporting will help management understand what needs to be improved.

In light of the findings of our 2013 audit and the OPGT's continued delays in successfully implementing needed changes, we believe the risk remains heightened that funds held in trust by the OPGT may be mismanaged.

Recommendation 3: Internal audit

Management's assessment:	●	Implemented
OAG assessment:	◆	Unsatisfactory progress

Rationale for our assessment:
In 2013, we found that the OPGT's internal audit function was not sufficiently independent. It was performing pre-distribution reviews, which is operational work that would not typically be done by internal audit. Further, internal audit was reporting to management rather than, as we would expect, to the department. We therefore recommended that the OPGT strengthen the role of its internal audit function.

The department acted on this recommendation in early 2013 by folding the OPGT's internal audit staff into its existing Human Services Corporate Internal Audit group. For example, it:

- retrained the former OPGT staff
- developed a risk-based audit plan and completed the first planned audit
- regularly reported to leadership in Human Services

However, the relocation of the internal audit staff created a vacuum that the OPGT did not sufficiently anticipate or fill. Backlogs developed in the operational work previously done by the audit staff. As a result, internal audit staff became more involved again in providing operational support to the OPGT.

In October 2015, these audit staff moved to performing only operational support for OPGT's new file review process and managing distributions of trust funds, and they were no longer carrying out audit work. Human Services leadership approved this temporary change so that internal audit could provide needed support to the OPGT. In its 2016–2017 audit plan, Human Services Corporate Internal Audit budgeted 42 per cent of its total internal audit resources to the OPGT. None of that amount was for auditing—it was all for operational support.

In its October 2016 progress report, Human Services confirmed that the internal audit group would continue to provide support to OPGT operations until June 30, 2017 and then revert to its internal audit

[13] The supervisory review process approved in October 2015 called for the review of 7,000 files. An additional 4,000 were assessed by management as having a lower risk, so a sample of these files will be reviewed instead of every file.

role once again. However, neither the department, the internal audit group nor OPGT management have a documented plan for how to meet this timeframe, or for how the OPGT will replace these resources. We have concerns that another vacuum may be created. Further, the independence of the internal audit staff will require reassessment given their involvement in the design, implementation and monitoring of new processes within the OPGT.

Recommendation 4: Improve and follow policy

Management's assessment: △ Not implemented
OAG assessment: △ Limited progress

Rationale for our assessment:
In 2013 we recommended that the OPGT assess the appropriateness of its policies and procedures and improve its processes for ensuring policies and procedures are complied with. In February 2015, the OPGT revised its policy manual, clearly separating policies from procedures and reducing the number to 13 broad policies. It has also developed a framework to guide the development, approval and regular review of policies and procedures.

The OPGT is in the process of completing updates to its procedures and plans to complete this work by July 2017. To deal with the part of the recommendation relating to improving compliance with policies and procedures, the OPGT developed new training materials in December 2014. Management is relying on the new supervisory review process (discussed above) to provide the reporting on results (currently under development) to tell it whether staff are adhering to policies. Results to date indicate that adherence to policies continues to be an area of concern. The effectiveness of the training material is unclear, and the lack of up-to-date procedures that reflect current practices and expectations has been a major challenge to seeing improved results.

Recommendation 5: Segregation of duties

Management's assessment: ● Implemented
OAG assessment: ● Good progress

Rationale for our assessment:
In 2013, we found that the OPGT's processes for approving and paying client expenses and disbursements were weak. For example, we found deficiencies in supporting documentation. Trust officers were sometimes approving payments without providing sufficient documentation, but finance staff were often making the payments anyway, even though they should have requested documentation. This situation meant that there was essentially no second check on payment approvals: if a trust office approved a payment, that payment was likely to be made without question. Having no second check on payments is, in effect, a breakdown of segregation of duties, which is supposed to prevent the same person both approving and making payments.

OPGT finance staff have since designed and implemented new controls supporting better review and approval of client trust disbursements and distributions. Management has also hired additional staff to perform duties related to the newly implemented controls. We have not tested whether these controls are operating effectively—this testing will take place during our follow-up audit.

Recommendation 6: Documentation

Management's assessment:	△	Not implemented
OAG assessment:	△	Limited progress

Rationale for our assessment:
In 2013, we recommended that the OPGT improve its documentation of client files because we found that there was often no documentation of regular updates or of support for key decisions concerning the management of clients' financial affairs.

In response, OPGT management has re-designed the physical structure of its files and applied the new structure on a go-forward basis. It has developed a budget template that is to be used to support better decisions regarding the use of client funds. Management has not assessed whether the template and other documentation requirements support better decisions regarding the use of client funds. Management plans to make this assessment as part of its new supervisory review process (discussed above).

For each client, the OPGT maintains a paper file and an electronic file. Management has not yet provided clear guidance on when and how staff should use a client's electronic file.

AUDITOR GENERAL
Alberta

Glossary

REPORT OF THE AUDITOR GENERAL OF ALBERTA

May 2017

GLOSSARY

Accountability for results The obligation to show continually improving results in the context of fair and agreed on expectations. For Albertans to receive value for money, all those who use public resources must:

- set and communicate measurable results and responsibilities
- plan what needs to be done to achieve results
- do the work and monitor progress
- report on results
- evaluate results and provide feedback (results analysis)

Accrual basis of accounting A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

Adverse auditor's opinion An auditor's opinion that things audited do not meet the criteria that apply to them.

Assurance An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

Attest work, attest audit Work an auditor does to express an opinion on the reliability of financial statements.

Audit An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices.

Auditor A person who examines systems and financial information.

Auditor's opinion An auditor's written opinion on whether things audited meet the criteria that apply to them.

Auditor's report An auditor's written communication on the results of an audit.

Business case An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyzes the costs, benefits and risks associated with the proposed investment, including reasonable alternatives.

Capital asset A long-term asset.

COBIT Abbreviation for Control Objectives for Information and Related Technology. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical matters, control needs and performance measurement requirements.

COSO Abbreviation for Committee of Sponsoring Organizations of the Treadway Commission. COSO is a joint initiative of five private sector organizations and is dedicated to the development of frameworks and guidance on risk management, internal control and fraud deterrence.

CPA Canada Abbreviation for Chartered Professional Accountants of Canada, the national professional accounting body established to support a unified Canadian accounting profession. It replaces the Canadian Institute of Chartered Accountants (CICA), the Society of Management Accountants of Canada (CMA Canada) and Certified General Accountants of Canada (CGA Canada).

Criteria Reasonable and attainable standards of performance that auditors use to assess systems or information.

Cross-ministry A section of this report covering systems and problems that affect several ministries or the whole government.

Crown Government of Alberta.

Deferred maintenance Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

Disclaimer of opinion The auditors report they are unable to express an opinion on the subject matter because they have not been able to obtain evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management's systems, controls and practices.

Enterprise risk management (ERM) The systems and processes within an organization used to identify and manage risks so it can achieve its goals and objectives. An ERM creates linkages between significant business risks and possible outcomes so that management can make informed decisions. An ERM framework helps organizations identify risks and opportunities, assess them for likelihood and magnitude of impact, and determine and monitor the organization's responses and actions to mitigate risk. A risk-based approach to managing an enterprise includes internal controls and strategic planning.

Enterprise resource planning (ERP) ERP integrates and automates all data and processes of an organization into one comprehensive system. ERP may incorporate just a few processes, such as accounting and payroll, or may contain additional functions such as accounts payable, accounts receivable, purchasing, asset management, and/or other administrative processes. ERP achieves integration by running modules on standardized computer hardware with centralized databases used by all modules.

Exception Something that does not meet the criteria it should meet—see "auditor's opinion."

Expense The cost of a thing over a specific time.

IFRS International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Chartered Professional Accountants of Canada. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011.

GAAP Abbreviation for "generally accepted accounting principles," which are established by the Chartered Professional Accountants of Canada. GAAP are criteria for financial reporting.

Governance A process and structure that brings together capable people and relevant information to achieve results (the cost-effective use of public resources).

Government business enterprise A commercial-type enterprise controlled by government. A government business enterprise primarily sells goods or services to individuals or organizations outside government, and is able to sustain its operations and meet its obligations from revenues received from sources outside government.

Internal audit A group of auditors within an organization that assesses and reports on the adequacy of the organization's internal controls. The group typically reports its findings directly to the deputy minister or governing board. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources and effectiveness of operations.

Internal control A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:

- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations and internal policies

Management letter Our letter to the management of an entity that we have audited. In the letter, we explain:

1. our work
2. our findings
3. our recommendation of what the entity should improve
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

Material, materiality Something important to decision makers.

Misstatement A misrepresentation of financial information due to mistake, fraud or other irregularities.

Outcomes The results an organization tries to achieve based on its goals.

Outputs The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many."

Oversight The job of:
- being vigilant,
- checking that processes/systems, including the accountability for results system, are working well, and
- signalling preferred behaviour,

all in the pursuit of desired results.

Performance audit To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money. Paragraphs (d) and (e) of Subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:
- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do performance audits. Performance audits are conducted in accordance with the auditing standards established by the Chartered Professional Accountants of Canada. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to the criteria. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry or organization must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation. A performance audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

Performance measure Indicator of progress in achieving a desired result.

Performance reporting Reporting on financial and non-financial performance compared with plans.

Performance target The expected result for a performance measure.

PSAB Abbreviation for Public Sector Accounting Board, the body that sets public sector accounting standards.

PSAS Abbreviation for Public Sector Accounting Standards, which are applicable to federal, provincial, territorial and local governments.

Qualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.

Recommendation A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.

Review Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of inquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria.

Risk Anything that impairs an organization's ability to achieve its goals.

Sample A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgmental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgment of risk, the nature of the items in the population and the specific audit objectives for which sampling is being used.

Standards for systems audits Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Chartered Professional Accountants of Canada.

Systems (accounting) A set of interrelated accounting control processes for revenue, spending, preservation or use of assets and determination of liabilities.

Systems (management) A set of interrelated management control processes designed to achieve goals economically and efficiently.

Unqualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them.

Unqualified review engagement report Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

Value for money The concept underlying a systems audit is value for money. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, farm incomes, etc. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

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